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U. S. TRADE POLICY, 1962

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Will the trend toward regional trading blocs lead to freer world trade and expanded markets? In this issue, specialists discuss trade and tariff policies in various regions of the world. How will regional trading blocs affect the Western hemisphere? Our first article deals with this question.

A Common Market for Latin America?

By Walter J. Sedwitz
Director of the Department of Economic Affairs, Pan American Union

To welcome or to indict the present trend toward the formation of regional trading blocs poses a dilemma since, obviously, it may be both a bridge and an obstacle to the achievement of multilateralism—depending upon whether one looks at the arrangement from the inside or the outside. It is this very ambivalence, however, that makes the rules under which the common markets operate an all-important consideration in the assessment of the trend toward regionalism.

Latin America's economic integration is certainly to be viewed as part of this growing tendency which began in the 1930's with the establishment of Commonwealth preferences and intensified after the war with the formation of the Soviet trading area, Benelux, and, more recently, the European Economic Community (E.E.C.) and the European Free Trade Association (E.F.T.A.). With preferential trading arrangements beginning to extend to Latin America and other regions, a new pattern of international trading relationships is undoubtedly evolving.

In contrast to the European Common Market, which rests on predominantly political considerations, Latin American regionalism has arisen in large part from the deterioration of the area's posture in world trade with its concomitant dampening effects on economic development and industrialization. It may therefore help to see how Latin American trade shapes up in quantitative terms and how it may be affected by the formation of regional blocs elsewhere.

Over the past three decades Latin America has been pushed further to the periphery of world trade. One index of this development is that over the period 1928–1959 Latin America's share in world exports (excluding the Soviet area) dropped from nearly 11 per cent to 8 per cent. Most of this decline, which was roughly paralleled on the import side, took place during the past decade. If the countries that still remain outside any regional association are excluded from the calculation—which means omitting such important trading countries as Venezuela and Cuba—the drop is even more pronounced, from 7.3 per cent in 1928 to 4.2 per cent in 1959.

By themselves these figures mean little and must be interpreted with caution. To some

extent the failure of Latin American exports to stay abreast of the general expansion of world exports reflects the diversion of resources from external to domestic uses. While this could be taken as a partial index of the region's economic progress over the past decade or so, it suggests also the deterrent effects of inflation on export capacity, as rising costs and overvalued exchange rates have tended to discourage production. Principally, however, the sluggish behavior of exports reflects the failure of world demand for foodstuffs and raw materials to grow apace with the output and demand for industrial products. This is one of the factors on which most of the responsibility for the deteriorating export position of Latin America must be pinned. The dimensions of this problem are dramatized by the fact that, while world manufacturing output increased by 146 per cent over the period from 1928 to 1957–1959, the expansion of the quantum of world exports of primary products, excluding petroleum, came to only 14 per cent.

While Latin American trade has been lagging, the region's dependence on exports remains high. This is a familiar problem; suffice it merely to recall that in the majority of the Latin American countries exports still represent between 15 and 25 per cent or more of the gross national product, compared with 4.5 per cent in the United States. In most instances, moreover, two or three export commodities at most make up more than three-fourths of total export receipts. This dependence on export markets becomes particularly irksome and risky in view of their inherently unstable nature. Copper prices, for example, climbed 41 per cent in 1955, only to drop by an equal amount over the following two years. Similarly, cocoa quotations after tumbling 35 per cent and 27 per cent respectively in 1955 and 1956, rose 12 per cent and 44 per cent in each of the two succeeding years. Fluctuations of comparable amplitude occurred in recent years in the case of sugar, beef, nonferrous metals and, to a lesser extent, coffee.

It is true, of course, that the formation of regional markets in Latin America would not, of itself, end the volatility of commodity prices or the dependence on exports. Nevertheless, within the framework of a regional market and of closer coordination of economic policies, these problems might be mitigated somewhat. For one thing, the vulnerability of commodity price fluctuations might be reduced to the extent that the list of exports became more diversified. It is also possible that the establishment of common markets might facilitate a region-wide export policy designed to influence market developments more effectively than heretofore. Latin America is well placed to apply such leverage on export markets for the region accounts for more than 80 per cent of world trade in coffee, 75 per cent in sugar, 68 per cent in meats, 64 per cent in bananas, and 40 per cent in copper.

THE COMMON MARKET THREAT

Quite apart from the foregoing considerations, Latin America faces a new threat to its export position by the proliferation of regional preferences elsewhere, notably in Western Europe. The creation of the E.E.C. and of E.F.T.A. on top of the already existing system of Commonwealth preferences, plus the real possibility that these regional blocs will merge into one, gives the Latin American economic integration attempts some urgency. Moreover, it raises for the United States some fundamental policy issues: what kind of international trading system seems to be evolving and what rules ought to govern its functioning.

A few summary figures may help to give an idea of the volume of world trade already being forced into preferential channels. In 1959, for example, nearly one-fourth ($24.9 billion) of the free world's export trade was transacted among countries belonging to regional preference areas; $11.5 billion was represented by exports within the British Commonwealth, $9.4 billion by shipments within E.E.C. and its overseas associates, and $3 billion by the intraregional exports of E.F.T.A. Although not all of this commerce was subject to preferential treatment, it must be assumed that an increasingly greater pro-

portion of such trade will enjoy preferential treatment of one sort or another, with undeniably discriminatory effects on outsiders.

This brings us to one of the features of the European Common Market that bears directly on Latin American trade and on that of other underdeveloped regions: the one-way preferences extended by the metropolitan members of the E.E.C. to their overseas associates. Thus, Germany will remove import restrictions on products coming from French Africa, without doing so for competing producers in Latin America or other "outside" regions. By the same token, France will accord preferential treatment, in addition to its own overseas associates, to the imports of Italy's and Belgium's associates.

This arrangement is very difficult to reconcile with G.A.T.T. principles under which the formation of regional markets is made contingent on the removal of *all* intraregional import restrictions within a clearly specified period. The one-way preferences accorded to the overseas associates breaches this principle. The overseas areas involved are for the most part either already independent countries or are about to reach that status, and obviously there is not even the slightest presumption that they would ever be brought fully into the fold of the European Economic Community. The arrangement, moreover, involves not merely the preservation of existing and long-standing preferences for the overseas associates, but the extension of the privileged position from the individual metropolitan countries to the region as a whole.

Viewed in this light, any "bridging of the gap" between the Six and the Seven to encompass the overseas associates of both raises an even gloomier prospect for Latin America. On the basis of some rather crude calculations, such a marriage between the E.E.C. and E.F.T.A. would raise the proportion of world exports flowing within the perimeter of preferential trading areas from about one-fourth to nearly two-fifths. It would involve, at least potentially, preferred treatment for $10.6 billion of overseas imports, compared with the present $6.9 billion.

For Latin America the problems extend beyond questions of principle, important as these are. Latin America has a significant commercial stake in Western Europe; in 1960, for example, about 30 per cent of all Latin American exports went to Western Europe with more than half of them consigned to the E.E.C. The members of the newly forming Central American customs union and the Latin American Free Trade Area (L.A.F.T.A.) shipped 27.1 per cent and 24.5 per cent respectively of their exports to the European Common Market, and for particular countries, notably Argentina, Chile, El Salvador and Costa Rica, the proportion was around one-third.

The particular danger that the European regional accord poses for Latin America is the displacement of such exports as coffee, cocoa, bananas, lead, zinc, hides and skins, vegetable oils, sugar, wheat, meat and hardwoods. These commodities represent about half the total shipped to E.E.C. and would comprise about 7 per cent of total Latin American exports to all destinations. In the case of a merger between the E.E.C. and E.F.T.A. the proportion of affected exports would at least double.

The impact of the European trade preferences will of course vary for individual countries and some, such as Argentina and Uruguay, which are exporters of food grains and meat, are likely to be more affected by a common agricultural policy among the metropolitan members of the E.E.C. than by discrimination in favor of overseas associates. By and large, however, the metal exporting countries, notably Chile, Mexico and Peru, stand to suffer least damage because these products will enter the European Common Market at very low duties or duty-free. On the other hand, the countries exporting tropical foodstuffs are exposed directly to the effects of discrimination in favor of the European Common Market associates. The danger for Argentina and Uruguay is not immediate and depends, as noted above, on the conclusion of a common agricultural policy.

The particularly striking instances of intensified discrimination are those involving

coffee, cocoa, bananas and sugar. For example, Benelux is required to raise its duties on coffee and cocoa from zero to 16 per cent and 9 per cent respectively in order to bring its tariff to common E.E.C. level; and Germany, which imposes no duty on bananas, has to apply a tariff of 20 per cent, while its import duty on sugar has to go up from 37 per cent to 80 per cent. These four export commodities comprise roughly one-third of total Latin American shipments to the E.E.C. region and in each case they are a significant fraction of the total of these commodities purchased by the Common Market countries.

It must be stressed that all that the foregoing figures indicate are magnitudes of the *possible* effects. There is no meaningful way of assessing exactly how much damage the E.E.C. arrangement will inflict upon Latin America and how acutely the damage will be felt. The likely effects may well be more subdued for several reasons: First, the widening of the area and degree of discrimination will be gradual and provide time for adaptation; secondly, the absorptive capacity of the E.E.C. market may grow as a result of integration; thirdly, there is the question of the capacity of Latin America's African competitors to supply European needs; and lastly, there are important qualitative differences between the products shipped by Latin America and those exported by the overseas associates, particularly with respect to such commodities as coffee, cocoa and bananas, which may help to cut the competitive edge of the overseas associates in the E.E.C. market.

Whatever the potency of these forces, however, they cannot quell completely the uncertainty Latin American exporters face in the European market. This involves not only traditional exports but also a variety of semi-finished goods which Latin America is now in a position to export in increasing quantities. All things considered, therefore, the best that can be said at this point is that Latin American exports to Western Europe may not suffer a decline in absolute terms, but their share in the E.E.C. market is likely to shrink. This obviously is not a very comforting prospect for a region whose economic and social development is rigidly fastened to expanding exports.

The question of the extent to which the creation of regional markets in Latin America will affect the area's bargaining power is worth considering. While the Central American accord and L.A.F.T.A. may enable these regions to articulate their demands for tariff concessions or nondiscriminatory treatment with greater force, their capacity to offer concessions—a basic condition for effective bargaining—remains quite limited. In the Central American case, obviously, even the regional market is too small to induce supplying countries to bargain. The L.A.F.T.A. regions, of course, represent a more sizeable market for the E.E.C., totalling $800 million in 1959 (equivalent to about 3 per cent of E.E.C. exports). These are not insignificant magnitudes, but effective bargaining leverage in this case is minimized by the fact that each constituent country retains its own tariff against outsiders, which obviates the possibility for offering region-wide concessions. While an all-embracing Latin American Common Market with a unified external tariff would offer the greatest bargaining advantage, there are, nevertheless, innumerable other ways in which the countries could employ leverage on Western Europe as a matter of common policy.

SOME POLICY ISSUES

All of this brings into focus some of the incompatibilities between the political and economic objectives of United States foreign policy. It is evident that United States support of the E.E.C. and the one-way preferences it gives to the overseas associates would mean approving a scheme that discriminates precisely against those areas whose economic development has become a cornerstone of United States foreign policy. In this sense, surely, the "Alliance for Progress" may not seem entirely convincing to Latin America. To the extent, moreover, that the United States has been willing to accept—mainly for political reasons—a regional arrangement in Western Europe that violates in certain important respects the spirit of G.A.T.T., the

somewhat purist attitude of the United States toward L.A.F.T.A. (at least until quite recently) loses some of its force and substance. Another issue is that the E.E.C. preferences to its overseas associates carry the risk of involving the E.E.C. and the United States in Afro-Latin American trade rivalries. Such a situation would be uncomfortable for both sides. This is not to convey the impression that these dangers are all imminent, but they do point to a situation that may in the future plague the United States as the inconsistencies between principle and practice and between regional and global commitments come into sharper relief.

What are the alternatives? One course of action would involve the extension of one-way preferences by the United States to Latin America. Such a step would obviously mean a further dilution of G.A.T.T. principles and would accentuate the trend toward the formation of trade-diverting regional blocs. Quite apart from the fact that such a linkage to the United States market may expose some of the Latin American governments to criticism from various groups and therefore may not be received too enthusiastically, the one-way preferences to Latin America would mean discrimination against all other underdeveloped regions. For the most part these regions are even poorer than Latin America; and the stake of the United States in hastening their economic and social advance is high.

A preferable course of action recently suggested would be for all industrialized nations to extend preferential treatment to the imports of all underdeveloped regions without distinction. Such a step might not be so radical as would appear at first glance, given the precedent of the one-way preferences within the British Commonwealth and the E.E.C. Of course, such a move raises legislative and political issues of no small dimension, not only in the United States but in the other industrialized countries as well. Nevertheless, the drift toward an arrangement of this sort may well be inevitable and would probably go far toward resolving some of the incompatibilities under which international trade policy now labors. It would mean giving clear-cut recognition to the fact that the developing countries will not, or perhaps cannot, cope with their problems on the basis of the same liberal trade principles as the more developed countries. More important, it would help reverse the trend toward interregional discrimination and the formation of "impure" regional blocs involving the advanced countries with detrimental effects on the political and economic posture of the West. Within such a framework of one-way preferences to the underdeveloped regions, the latter might be gradually induced to make their own regional markets more effective instruments for creating trade and industry.

INTRAREGIONAL TRADE PATTERNS

Intra-Latin American trade is notoriously small. While it has grown almost seven-fold between 1938 and 1959, it has remained almost unchanged as a share of the region's total trade and still hovers at around 10 per cent. Still, the absolute rise in intraregional trade is rather impressive, particularly if one considers that it reflects a rise not only of the volume and the prices of the commodities traded, but also of their number and variety. No doubt, this increase was partly stimulated by the war and—to some extent at least—is a gauge of the region's economic progress. In part, however, it was born out of the network of bilateral trade and payments agreements concluded after the war by meridional countries in an effort to save foreign exchange.

The L.A.F.T.A. region probably offers the best long-term prospects for intraregional trade, comprising as it does the economically most advanced countries of Latin America. Exports of the L.A.F.T.A. countries to one another amounted to $304 million in 1959, about 8 per cent of the total shipped to all destinations. This was by far the largest slice of intra-Latin American trade, but in comparison with E.E.C. intra-trade which comes to about one-third of the total, trade within the L.A.F.T.A. region was still very modest. The limited volume of intraregional trade, of course, is no gauge of the flow of com-

merce that might be generated as a result of tariff liberalization and regional preferences. Before examining the extent to which such liberalization is likely to induce an expansion in intraregional trade, we ought to consider certain basic structural aspects of L.A.F.T.A. trade.

One of the striking features of trade within the L.A.F.T.A. region is the position of Argentina as the hub. The country's economic structure and geographic location undoubtedly favor this role. Argentina accounts for roughly one-third of intraregional imports and close to one-half of exports. The great bulk of this trade is carried on with the two largest neighboring markets, Brazil and Chile. Mexico, on the other hand, stands at the outer edge of L.A.F.T.A. trade, accounting for less than 1 per cent of the import and export trade within the area. Between these poles, the major trade channels are those between adjacent countries, notably between Chile and Peru, Uruguay and Brazil, and Paraguay and Argentina. Not too surprisingly, the bulk of trade moves mainly in a north-south, rather than east-west direction, an index of specialization based on climatic conditions and of the lack of transport facilities.

The commodity composition of the intraregional exports of the L.A.F.T.A. countries consists almost wholly of primary products. Foodstuffs represent about two-thirds—wheat, coffee, and fruits making up the bulk; about one-fourth consists of raw materials and semi-processed materials, most of it lumber and petroleum; and about 10 per cent may be classified as manufactured products, largely copper wire and steel mill products. A characteristic feature of this trade is that it is almost entirely noncompetitive and consists in large part of the exchange of temperate zone against tropical products.

It is difficult to determine with any degree of precision to what extent existing tariff levels constitute effective barriers to an expansion of intraregional trade. The complexity of the tariff schedules in some countries, problems of nomenclature, and a network of non-tariff import restrictions make it extremely difficult to generalize about the impact of Latin American import duties.

By and large, it seems altogether doubtful whether existing tariff levels, or perhaps even some of the non-tariff restrictions, are the prime impediments to an expansion of intraregional trade. There are other more basic factors that inhibit trade. One of these is the limited capacity and variety of output. For example, most types of capital equipment on which existing tariff levels are low to begin with probably will continue to be purchased outside the region, either because the price of the regional product is too high, even without duty, or because the product is not yet produced in sufficient quantity for export. In the case of foodstuffs and raw materials the scope for expanding intraregional trade is probably greater, but here tight government regulation for protectionism will prevail for a long time. Still, the fact that during 1955–1957 Latin American trade in foodstuffs averaged $300 million annually while the region imported more than $400 million of foodstuffs from other areas, including wheat, fats and oils, cattle and fruits in which Latin America is a net exporter, suggests the possibility of at least meeting foodstuff deficits from regional sources of supply.

A basic deterrent to the expansion of intraregional trade is the high cost of transportation and the general inadequacy of shipping facilities. Unless this problem can be solved, the elimination of tariffs and other artificial obstacles to intraregional trade may be of limited value. Within the L.A.F.T.A. region the problem relates especially to ocean shipping. At present, some 90 per cent of trade within L.A.F.T.A. is transported by sea, while most of the remainder is shipped largely by inland waterways, notably along the River Plate. The cost of ocean freight for goods shipped within the L.A.F.T.A. region is considerably higher than that on goods coming from non-Latin American sources.

The deterrent effect of the transportation bottleneck on intraregional trade is well recognized by the L.A.F.T.A. countries, particularly by Mexico, as an urgent problem which must be solved if economic integration is to be

meaningful. Thus far, however, nothing concrete has been accomplished, other than a maritime conference at which various proposals were made for an increase in the L.A.F.T.A. shipping tonnage and for establishing regularly-scheduled shipping itineraries. But as long as trade remains modest, there will be little incentive for making improvements.

Although the obstacles to intraregional trade are considerable, the grim prospects for Latin America's exports to traditional markets make their removal a virtual necessity. To cite the dimensions of the problem, a recent study by the National Planning Association suggests that Latin American exports to the United States may be expected to expand at an annual rate of no more than about 1.3 per cent during the early 1960's. This compares with a rate of 5 per cent during the decade following World War II. Only toward the end of the 1960's is recovery to a rate of about 4 per cent likely. In this connection it would appear that with an intensification of discrimination against Latin American products in European markets, the chances for offsetting gains in the latter are not too auspicious. The markets for such products as coffee, cocoa, sugar, bananas, cotton, oils and fats, and hides and skins will be considerably weaker than those for metals and minerals. Consequently, some countries, notably Peru and Chile, are apt to fare somewhat better than others like Brazil, Argentina, and Uruguay.

As regards the outlook for intraregional L.A.F.T.A. trade, no meaningful detailed projections are possible. It seems quite clear, however, that the achievement of the ambitious goals for intraregional trade in capital equipment set by the United Nations Economic Commission for Latin America (E.C.L.A.) is a long way off. Even under the best circumstances it will probably take more than a decade before the production of machinery, steel and chemicals can be increased sufficiently to render any substantial trade feasible. For example, if projected regional demand for machinery is to be met by 1975, its output is estimated to require an expansion from the present $200 million to $5.4 billion, probably an impossible task.

The chances for enlarging the volume of intra-L.A.F.T.A. trade in light manufactures is probably hampered less by problems of supply than by the understandable fear of the member countries to expose some of these industries, particularly textiles, leather goods, paper, automobiles, and others to any intensive regional competition. Nevertheless, within these classifications there is apt to be a string of products in which increased trade might become possible once L.A.F.T.A. is fully functioning.

The outlook for the traditional intraregional exports is mixed. Trade in fruit, coffee, wheat, cattle and edible oils and fats has been declining in recent years, but trade in iron and steel mill products and pharmaceuticals has been rising. In the case of fruit, for example, intraregional trade has been diverted to outside regions as a result of the Argentine exchange reform which rendered unprofitable bilateral trade with Brazil. With the abandonment of bilateralism such trade might well expand once more.

In the final analysis, however, much of the possible increases in intraregional trade will hinge on the extent and character of the reciprocal concessions. And here the outlook is very encouraging. At their first round of negotiations last fall, the L.A.F.T.A. countries exchanged concessions on nearly 2,500 products. What is even more important, many of these articles are not yet traded within the region. The inclusion of such "new" products—which is not called for under the Montevideo Treaty—is tangible evidence of the determination with which Latin America is moving toward genuine economic integration.

PAYMENTS PROBLEM

The problem of intraregional trade cannot be separated from that of payments. Despite the fact that most of the L.A.F.T.A. countries in recent years have moved toward multilateral payments systems and free exchange rates, a considerable proportion of intraregional trade is still conducted through bi-

lateral channels. These, of course, are incompatible with the multilateral features of the L.A.F.T.A. arrangement and, in fact, represent discriminatory treatment of imports from member countries which do not practice bilateralism. The drawbacks of this system are familiar; nevertheless, since some of the members still labor under severe exchange stringencies and are fearful that trade liberalization will accentuate their deficits, there appears to exist some reluctance to abandon the system altogether and to settle intraregional balances on a freely convertible basis. Brazil and Uruguay, for example, have the largest and most persistent deficits in intraregional trade, in contrast to Peru and Argentina, which have the largest surpluses.

In order to cope with the payments problem, consideration has been given to the establishment of a system of regional compensation and automatic credit facilities similar to that embodied in the now defunct European Payments Union. The plan has been advocated by E.C.L.A. on the grounds that no member country ought to be able to earn convertible exchange in trade with another, which it might then spend on imports from outside the region. The creation of a closed regional payments system under which balances earned by surplus countries like Peru would only be spent within the region is intended to avoid this danger. This is in line with the principle of reciprocity, embodied in the Montevideo Treaty, under which surplus members are committed to accelerate liberalization so as to promote imports and achieve balanced accounts with the region as a whole at a higher level of trade.

Although the creation of such a payments system might help to promote some additional intraregional trade, it is difficult to envisage creditor countries agreeing to such an arrangement. Quite apart from this, however, such a system obviously would make trade contingent on payments facilities, rather than on prices, quality, and other purely economic factors, and hence might conceivably direct trade into uneconomic channels. In view of the general trend in Latin America and elsewhere toward exchange freedom and convertibility, it would represent a retrograde step. Moreover, in a region in which the lack of intra-zonal trade reflects essentially the limited capacity and diversity of production, regional commerce could be promoted much more effectively by the so-called complementarity agreements. Under these agreements, provided for in the Montevideo Treaty, free markets in complementary products could be created—thus stimulating the creation of new industries and regional trade. All of this, however, still leaves the question of the need for some other financial crutch to help finance intraregional balances in fully convertible currencies.

The success of L.A.F.T.A. may well hinge on the expansion of facilities for trade financing. For example, an important barrier to intra-Latin American trade in capital goods is the lack of credits for intermediate-term financing. Exporters in Mexico, Brazil, and Argentina are unable to provide the same credit terms for their exports of machinery as United States or European exporters are able to do with the aid of government financial institutions, such as the Export-Import Bank. But such a system of trade financing will require external capital which may not be available from existing institutions, including the Inter-American Development Bank, although the latter might be in a position to administer such a fund effectively. For that reason, the regional markets now being formed in Latin America will require special assistance from the United States in order to help finance trade. In fact, the United States could assist in accelerating Latin American economic integration by linking some of its aid to intraregional trade liberalization and the expansion of intra-zonal commerce.

CENTRAL AMERICAN CUSTOMS UNION

Trade among the countries comprising the proposed Central American Customs Union (El Salvador, Guatemala, Honduras and Nicaragua) is small and undiversified; intraregional exports amounted to only $22.8 million in 1959, less than 6 per cent of the total, which was a somewhat lower share than that

recorded in the case of L.A.F.T.A. The inclusion of Costa Rica and Panama in the Central American Customs Union would raise the level of intraregional trade about 20 per cent, underlining the importance of bringing Costa Rica and possibly Panama into the arrangement.

An interesting feature of the structure of intra-Central American trade is the extent to which it is anchored in El Salvador. That country accounted for roughly half of intraregional exports and imports. The bulk of this trade is conducted with Guatemala and Honduras, two countries with which adequate transportation and communications facilities exist. Trade between Honduras and Guatemala is minimal, while Nicaragua's commerce is largely directed to Costa Rica. El Salvador's key position in intra-Central American trade is thus similar to that which Argentina occupies within L.A.F.T.A.

There are no complete or up-to-date data on the commodity composition of trade within the Central American region. From such data as are available, however, it appears that about 80 per cent of trade is made up of foodstuffs and raw materials and 10 per cent of manufactures. These proportions are largely determined by El Salvador's huge food requirements (cattle and corn from Nicaragua and Honduras) as well as by its purchases of raw materials (hides from Honduras and Nicaragua, lumber from Guatemala and Honduras, and fresh fruits and vegetables from Guatemala). As regards trade in manufactures, El Salvador has begun the shipment of footwear, largely to Honduras and Guatemala, and an expansion of its exports of cement, and certain manufactured foodstuffs.

Intra-Central American trade has grown quite remarkably in recent years. Compared with the $22.8 million of goods traded within the region in 1959, intraregional commerce stood at only $10.3 million in 1952, a more than two-fold increase over a seven-year period. This expansion is to be attributed not only to the development of transportation facilities and the growth of productive capacity, but also—and perhaps mainly—to the series of bilateral free trade treaties concluded by El Salvador with its Central American neighbors.

These treaties antedate the conclusion of the common market agreements and were signed with Nicaragua (1951), with Guatemala (1951) and with Costa Rica (1953). To these must be added the agreement with Honduras which has been in force since 1918 but was revised in 1954. All of these agreements include statements looking toward economic integration or the creation of customs unions. The customs union objective is expressly stated in the agreements with Nicaragua, Guatemala and Costa Rica and the accords with the latter two countries also specify other areas of cooperation. The trade regime provided for in all of these treaties is flexible and they generally contain specified lists of products excluded from the free trade regime as well as various escape clauses permitting restrictions under given circumstances, usually balance of payments difficulties.

Although the common market treaties signed so far create the institutional framework for an expansion of intraregional trade, the realization of this goal on anywhere near the scale envisaged or required encounters several obstacles. First, the volume and variety of actual output in each of the member countries limit substantially the possibilities for intraregional trade. The production and trade of capital goods must be discounted from the start—at least for the present—since the region possesses neither the essential raw materials, the capital and technology, nor the market size to support heavy industry. As regards many types of durable consumer goods and light manufactures, much of Central American demand has long been satisfied by imports from the United States and other advanced countries. Given the considerable extent to which imported consumer goods have prestige value, there is even some question whether tariff reductions by themselves would in most cases suffice to encourage trade in regionally-produced goods. With further economic growth and a narrowing of the income gap between rich and poor, however, this problem might be eased.

The transportation bottleneck presents another impediment. Although there are some excellent roads radiating from El Salvador to Guatemala and Honduras, only a few are all-weather roads. Roads between Guatemala and Honduras and between these countries and Nicaragua and Costa Rica are either nonexistent or below standard. Although the Pan-American Highway now connects the Central American countries along the Pacific Coast, the lack of feeder roads still renders transport difficult and costly. Shipping suffers from lack of adequate port facilities and infrequent itineraries create delays and high costs. Efforts to tackle the transportation problem on a joint basis have begun. The task that confronts the individual governments in the road-building program, both technologically and financially, is staggering and it is estimated that even under the most favorable conditions it will be at least five years before adequate facilities can be developed.

The question of payments presents less of a problem in Central America than in the L.A.F.T.A. region because three of the five countries have fully convertible exchange systems (El Salvador, Guatemala and Honduras), while Nicaragua and Costa Rica have employed mild systems of exchange control which give rise to official and free exchange markets. In the latter cases, however, the spread between official and free rates has been kept within fairly narrow margins. Under the General Treaty for Economic Integration, subscribed to by El Salvador, Guatemala, Honduras, and Nicaragua, intraregional balances will be settled in convertible currency. If there is any widening of the exchange rate spread, however, the question is to be submitted for negotiation.

As matters stand, no serious problems are envisaged with respect to the settlement of intraregional balances, particularly since these countries have so far been successful in avoiding excessive inflationary pressures. This is perhaps less a reflection of any conscious monetary and fiscal policy designed to preserve price stability in these countries than it is a result of the rather primitive structure of these economies. Since the domestic market is limited and income inequalities are great, any rise in aggregate demand is *directly* and *quickly* transmitted to the import sector where excess liquidity is quickly absorbed in the form of balance of payments deficits. However, as these economies reach a higher stage of development and industrialization gains speed, the spectre of disparate price movements with a deterrent effect on market integration may well begin to haunt these countries also.

Economic union in Central America has long historical and sentimental roots, but because of the gloomy outlook for the region's traditional exports—coffee, cotton, bananas and sugar—the expansion of intraregional trade has become a dire necessity.

In a broader perspective the formation of regional markets in Latin America assumes —at least up to a certain point—the character of a defensive mechanism. It is clear that it was not only emulation which hastened the process of economic integration in Latin America following the launching of the E.E.C., but also the need to adapt to the emergence of regional trading blocs in Western Europe. As the O.A.S. pointed out, "the establishment of the European Common Market . . . tends to add urgency to the reorientation of Latin American economic policies [which] has to involve the establishment of wider internal markets through regional integration. . . ."[1]

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[1] Effects of the European Economic Community on Latin American Economies, O.A.S., December, 1959, p. 5.

In this discussion of trade between Britain and the Commonwealth members under the preferential tariff system, this British economist observes that Britain and the Commonwealth must trade more and more with West Europe. "The Commonwealth is outgrowing the British market" and Britain cannot supply all the "Commonwealth's needs for capital imports." Thus with a weakening of "the ties binding the Commonwealth into an economic entity" already present, "British membership in the E.E.C. will speed up the transformation of the Commonwealth trading system. . . ."

The British Dilemma: Commonwealth or Common Market?

By Ann D. Monroe

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Commonwealth countries are responsible for one quarter of all free world trade. Among their ranks they number a great manufacturing nation, the vigorous and increasingly sophisticated economies of Canada and Australia, the most populous of underdeveloped countries, the largest Black African state. There is hardly anything the Commonwealth does not produce and export; in respect to many primary products it is virtually a monopoly producer.

And yet, as an entity, its influence on world trade is negligible. Independently the members are influential; collectively their strength is diluted to vanishing point, for the Commonwealth has no policy, no single approach to trade, no economic coherence. It is not a group, but a system of bilateral relationships centering on Britain—the cornerstone. Take Britain away, and the whole thing falls apart. It is just such a collapse that the future seems to threaten. Britain is turning to Europe, wrenching at the exiguous ties that bind the Commonwealth together. Is this an act of wanton destruction, the death sentence for a vigorous, expansionary group of rich potential? Or does it simply mark resigned acceptance of the fact that the Comonwealth, as an economic organisation, has a strictly limited future that may be sacrificed to a greater good? To answer these questions requires an accurate assessment of the trend of Commonwealth trade, and of the influences shaping it.

Commonwealth exports are currently valued at some £9.8 billion, Commonwealth imports at £11.6 billion. The United Kingdom's share is about £3.7 billion of exports and £4.6 billion of imports, Canada's £2.0 billion of both imports and exports. In no other case does total trade (imports plus exports) exceed £1.5 billion. There are three distinct flows of intra-Commonwealth trade: exports to Britain from the rest of the Commonwealth—about £1.5 billion annually; exports from Britain to the rest of the Commonwealth—about the same; and trade between Commonwealth countries other than Britain—about £0.95 billion to £1.0 billion.[1]

The importance of this small third flow is fairly constant. It is, in general, a highly

[1] In American billions, i.e., one thousand million.

specialized trade dominated by the export of Canadian and Australian grains, of Indian and Ceylon tea, of Pakistani jute, of Malayan rubber, of Australian wool. In these flows of trade there is nothing specifically Commonwealth in nature; the exporting countries are major world sources of supply from which most importing countries must purchase part of their requirements. Another part of intra-Commonwealth trade consists of the exchange of goods between near neighbours: India and Ceylon, Australia and New Zealand. This too is not a "Commonwealth" phenomenon but the outcome of geographical propinquity. There is in the small volume of trade remaining, not susceptible to classification under these heads, a specifically Commonwealth character, in that it is the partly artificial result of membership of the same organisation; but it defies analysis and assessment because of its very unimportance.

Trade of a truly Commonwealth character is confined almost exclusively to exchanges with the United Kingdom and on both sides these are diminishing in importance. Five years ago Britain took from the Commonwealth 45 per cent of its imports and sent there 47 per cent of its exports; now the proportions are 39 per cent and 41 per cent. Five years ago the rest of the Commonwealth sold Britain 28 per cent of its exports and bought there 26 per cent of its imports, now only 25 per cent and 22 per cent. This, in view of the large value of trade involved, is a formidably rapid change; but it is no more than a process that started before the war, was temporarily checked in the immediate postwar years, only to resume with greater intensity in the late 1950's.

COMMONWEALTH PREFERENCE

Part of the decline in the importance of the United Kingdom–Commonwealth trade flow is directly attributable to the decline of Commonwealth Preference, the curious system of preferential duties which reached its highest development in the early 1930's with the abandonment of free trade by Britain and the signing of the Ottawa Agreements. This system is the one formal element in the Commonwealth trading pattern. Even at its height, Commonwealth Preference was a limited affair, affecting not much over half the trade between Britain, its dependencies and Dominions. But in its heyday, the preferential tariffs it incorporated gave participants a clear advantage in one another's markets. That advantage has steadily diminished over the past 30 years.

There are many reasons for the change. First, most important preferences accorded by Britain were on food, not on raw materials; but trade in food has grown less rapidly than other trade so that the area over which these preferences operate has contracted. Second, many of the preferential duties were specific in character, a duty of so many shillings per pound of butter, for example. These duties have not been adjusted to the rise in world prices and as the value of money has fallen, the incidence of the duties and the margin of preference have fallen with it. Third, many of the preferences have been deliberately extinguished or reduced, by bilateral negotiations or through the General Agreement on Tariffs and Trade. So today only about 45 per cent of Britain's imports from the Commonwealth receive any preference at all, and probably not much more than a quarter is effectively preferred.

Similar trends—changes in the commodity pattern of trade, changes in price, deliberate action—have operated to produce similar results in the imports of other Commonwealth countries from Britain. Another factor of perhaps even greater importance has been at work. When the preferences were first established, they were chiefly granted on manufactured consumer goods that the importing countries could not themselves produce. Since then many of the more important Commonwealth countries have developed their own light industry, protecting it by swinging tariffs and, often, by restrictive quotas. The preferences are still there, formally, but they are to all intents and purposes useless.

Commonwealth Preference was never a logical system and it is now a confusion of non-reciprocal concessions. The West African countries have never given Britain prefer-

ence but they receive it from Britain on their cocoa; Australia still gives generous preferences but receives none on wool, its main export, or wheat. Moreover, any attempt to relate market shares to tariff preferences breaks down at once. It is clear that the direction of trade is determined by other, less easily defined influences of which habit—sheer inertia—is by no means the least important.

To what is the declining importance of Commonwealth trade to be attributed if not to preference reduction? Why should a system which, now at least, depends little on formal aids be contracting? The answer is to be found in the economic changes within each individual member country which are creating new patterns of trade. The Commonwealth is outgrowing the British market. Britain is less able to absorb all that the Commonwealth wishes to sell to it, for there are limits to the amount of tea and butter the British can consume, and to the volume of cheap manufactures an increasingly middle class economy will purchase.

At the same time, Commonwealth countries are spending their scanty foreign exchange resources more and more on goods which Britain does not supply so cheaply as its American and European competitors: plastics and airplanes in place of cotton cloth and steam engines. The Commonwealth trade system is crumbling under the impact of industrialisation in the less developed countries, and its decline is being hastened by Britain's own competitive weakness and its failure to match the rate of economic growth achieved in continental Europe.

Yet there does remain one important aspect of the Commonwealth trading system whose significance is insufficiently appreciated. Britain tends to be thought of by the rest of the world as a high tariff country. True, its duties on manufactures are high, but not for the Commonwealth which has free entry. And where food is concerned Britain is a very low tariff country. It charges nil or low duties on almost all Commonwealth foodstuffs and on a vast range of foods imported from the rest of the world. Free entry, rather than preference, is the vital element. Commonwealth Preference may fairly be judged a temporary feature; free entry, dating back to the heyday of nineteenth century free trade, is the key to Britain's dominant position in Commonwealth trade.

BRITAIN'S APPLICATION TO THE E.E.C.

It is in this perspective that the problems raised by Britain's application to join the E.E.C. are to be viewed. The British attitude is too often envisaged as the selfish outcome of a desperate clinging to the relics of Empire or, more generously though still superficially, as the sentimental remnant of a protective attitude to its daughter-nations overseas. This latter is an element in the British outlook and rightly. Some Commonwealth economies are geared to the British market; their ability to adapt rapidly to changing circumstances is so limited that failure to secure from the Six special treatments for their exports to Britain could inflict crushing damage. But there is also the wider view: for all its merits, all its actual and still more potential liberalism, the E.E.C.'s system of trading relations with underdeveloped countries is less open than the United Kingdom's policy towards imports from the underdeveloped Commonwealth. If Britain succeeds in its application to join the Community, the volume of Commonwealth trade which has free entry to the British market must contract.

The immediate problem and the possible solutions adumbrated are most easily analysed under six heads: the smaller territories, raw materials, tropical products, temperate foodstuffs, advanced manufactures and low labour-cost manufactures.

1) *The Smaller Territories*

The difficulties in the first case are of a peculiar kind since they affect one small and easily definable group of countries—the smaller territories of the Commonwealth whose dependence on the British market is absolute, whose trade is too insignificant to present a serious competitive challenge to other suppliers, and whose economies are so

precarious, so little viable in isolation, that the case for special treatment is overwhelming. Into this category fall the three Mediterranean territories—Gibraltar, Malta and Cyprus, the producers of sugar and coconuts in the Indian and Pacific oceans, notably Mauritius and Fiji, the British islands in the Atlantic and some of the smaller Caribbean territories. No future that does not involve a close economic connection with and dependence on some larger economy is conceivable for them. It may be that some of the territories will break away to form new associations, especially in the Caribbean; but for the rest, the granting of associated territory status within an enlarged E.E.C. is indispensable and will not be withheld.

2) *Raw Materials*

Trade in Commonwealth raw materials does not raise any special difficulties. On the vast majority of goods falling within this category, neither Britain nor the Six charge import duties; a merger of the British tariff with the common external tariff of the E.E.C. is a formality which will not involve any changes in the conditions of trade. There are, however, some important exceptions: aluminium, lead, zinc and woodpulp. Britain has applied for a reduction of the small E.E.C. duties on these items to nil; if the Six do not make this concession, they will certainly permit special arrangements in the form of tariff free quotas for British imports from the Commonwealth that will temporarily take care of the problem.

3) *Tropical Products*

Tropical products are a more difficult matter. Here the interests of Commonwealth exporters—Ghana, Nigeria, Kenya, Jamaica—conflict with those of the former French colonies in Africa producing cocoa, coffee, bananas and tropical hardwoods. The associated territories have secured, and aim to keep exclusive to themselves, preferential tariff treatment for their exports of these products to the Six; the Commonwealth territories would like to be admitted to share in those preferences in an extended E.E.C.; meanwhile Latin American exporters, outside the charmed circle, rightly fear a diversion of trade in favour of the E.E.C.'s associates that would reduce their sales to Europe.

Two alternative solutions have been canvassed: first a preferential system in which Commonwealth countries would become associated territories, receiving some preference from the Six but probably less than the original associates, while retaining, presumably, full preference in Britain; second, a reduction in the tariffs on tropical products and in the internal revenue taxes on coffee and cocoa that would reduce prices, boost consumption and so be of general benefit. It is greatly to be hoped that this solution will be adopted, even if only in a modified form that would entail the continuation of special French purchasing arrangements in former French colonies, giving them a continued advantage over other suppliers.

For the record, it may be noted here that one tropical product, tea, is likely to benefit from the elimination of all European customs duties. It is a vital export for Asian Commonwealth countries and a no less vital article of consumption for most Britons; the rest of Europe has little or no interest in this unique trade, the curious product of the long historical relationship between Indians and Englishmen.

4) *Temperate Foodstuffs*

Turning to temperate foodstuffs, we turn to one of the least tractable problems raised by prospective British membership in the E.E.C. The dissimilarity between the British and continental positions is so great that it is hard to see how the two can be reconciled. Britain, unable to feed itself, is the chief market for cereals, meat and butter from Canada, Australia and New Zealand, admitting these goods duty-free or under low preferential tariffs. The Six are already basically self-sufficient; current policy and practice will bring them nearer to this desired goal; and they are to protect their managed markets by a flexible but potentially highly restrictive system of import levies and quotas. If Britain accepted these arrangements as they

stand, it could mean the cutting-off of a huge flow of Commonwealth trade.

So far, solutions to this problem have only been hinted at. Oddly enough, the one most acceptable to some Commonwealth producers has been proposed by France and is opposed by Britain. It involves a reduction in the volume but not the value of trade. The French have suggested that Commonwealth wheat should be sold to the enlarged E.E.C. in fixed quantities at high fixed prices; in short, the British consumer would pay the cost of adjusting to the new situation. The price asked is hardly excessive. Yet it is open to question whether, supposing Britain agrees, the French would back a similar solution for meat and still more for butter; and of all the products in Commonwealth trade it is perhaps butter that is the most critical. Surplus grain can be sold outside Britain, very easily sold at present; new markets are being developed for meat; but Britain is the world's only large importer of butter.

5) *Advanced Manufactures*

Trade in advanced manufactures principally affects the same group of countries that is concerned with trade in temperate foodstuffs, but more especially Canada. In absolute terms, the loss entailed by the disappearance of free entry into Britain and its replacement by the common external tariff is small; but the potential for cutting off trade is vastly greater. Were the common external tariff to be applied in its original form to British imports of Commonwealth manufactures, there would be an immediate loss of trade with little hope of later recovery. Even with the 20 per cent tariff reduction proposed by the Six themselves, the outlook would be bleak. The United States proposal for a general tariff reduction offers a way of escape from this dilemma. Granted that the Commonwealth will export to Britain on less favourable terms than hitherto, the barriers to trade raised by the revised common external tariff will not be insuperable.

6) *Cheap Manufactures*

And finally low labour-cost manufactures —cheap textiles, cheap clothing and footwear, a miscellany of minor items exported principally by Asian Commonwealth countries and especially by Hong Kong. British membership in the E.E.C. raises not only the question of what duties will replace the free entry these products now enjoy in Britain, but also the thorny problem of quotas. Should the Six insist that Commonwealth countries be placed on the same footing as and share a quota with other low labour-cost producers, it would be a grievous blow. Hong Kong in particular would suffer a drastic deterioration of the conditions on which it trades; as a British colony it currently enjoys quota-free entry to all E.E.C. countries, save France, under the O.E.E.C. liberalisation rules. Moreover, it should not be ignored that duties in the E.E.C. common external tariff on low labour-cost manufactures are far above the average level of E.E.C. duties. Their application to imports into Britain would cause a sharp reduction in Commonwealth sales there. Could Commonwealth exporters be assured of an expanding market on the continent in compensation, their trade would not suffer in the long run; but it is of just this that they cannot be assured.

To this problem no solution acceptable to all concerned is in sight. On the one hand there is intense protectionism in the old, often declining, labour-intensive European industries; on the other, a desperate need to sell cheap manufactures overseas to provide not only the finance so badly needed for investment in development programmes but also the very livelihood of millions of Asians, crowded off the land too poor to support them. This is not a problem exclusive to the

(*Continued on page 53*)

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"Over the past four years, the E.E.C.'s industrial production and its national product have increased approximately three times as fast as that of the United States," notes this specialist. "Will the United States be able to keep on competing with the fast growing giant?"

The European Common Market

By Leonard B. Tennyson

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The President's trade message on January 25 officially launched the European Common Market into the mainstream of the public consciousness in the United States. The European Economic Community, as the Common Market is less popularly known, already had been in existence for a little more than four years. Yet American awareness of its existence and potential hitherto had been limited. Even among those concerned with international affairs, there was a certain tendency to regard it merely as a new kind of commercial phenomenon or as another slightly more complex addition to the alphabet soup of international organizations.

The introduction of the Common Market as a popular term in the United States has increased public awareness. But popular myths of its genesis and function still tend to obscure some of the economic and political "abc's" of its existence and of the future issues that arise in consideration of its impact upon the United States.

A discussion of the European Economic Community should begin with an assessment of achievements as compared to aims before embarking upon an examination of future problems and possibilities.

France, the Federal Republic of Germany, Italy and the Benelux nations established the European Coal and Steel Community by treaty in 1952. Their act was first and foremost a political decision. It sought to remove causes of the ancient rivalry between France and Germany, bring about a permanent Franco-German *rapprochement*, and bring Western Germany firmly into the family of Western nations.

The signatories were equally aware that:

a. free Europe must be unified to survive in the mid-twentieth century world;

b. a unified Europe could be achieved only by political choice;

c. political goals in modern industrialized societies are frequently reached by economic routes;

d. a united Europe could not be achieved by fiat;

e. a gradual and limited but definite start on the road to integration had to be made;

f. economic integration could not halt at the customs union stage but must proceed to common economic rules and policies.

Above all, the signatory nations knew from experience that their small markets could not be united and prosper by refurbishing the old instruments of international cooperation. A breakthrough required new institutions. Most significantly, it had to be accompanied by the abandonment of the rule of unanimity which had in the past either wrecked traditional international organizations or reduced their effectiveness to the level of the lowest common denominator.

Speaking of the common European insti-

tutions proposed by the Schuman Plan, its architect, Jean Monnet, remarked: "What we are creating will not of itself solve Europe's problems. What it will do is to provide the framework wherein Europe's problems will be capable of solution." When the E.C.S.C. venture was undertaken, even its well-wishers were sceptical. Many economists who saw an economically unified Europe as the sole solution to Europe's problems nonetheless scorned the E.C.S.C. because of its "partial integration." Yet in spite of political setbacks such as the defeat in 1954 of the European Defense Community and the demise of the European Political Community plans, the E.C.S.C. did succeed.

Intra-community trade in coal, steel, iron ore and scrap expanded to trade in non-integrated sectors. Producers, at first wary or opposed, discovered that the E.C.S.C. had created a bracing climate of trade and competition. In the Treaty's "readaptation" provisions, European labor found a guarantee against technological unemployment. Consumers found a wider choice and lower prices. The politicians who expressed misgivings over the quasi-federal structure of the E.C.S.C. and its "supranational" characteristics realized that few of their fears of *dirigisme* or conflict with national policies were well founded.

The "Europeans," those statesmen who put their faith and political futures into its creation, were rewarded by the unspectacular but reasonably successful performance of the pilot model. It was a first step, a uniquely European initiative whose institutions were the foundations on which the house of Europe could be built.

The sceptical economists were right—in the sense that the E.C.S.C. could not stand alone indefinitely. It had to be buttressed by more encompassing responsibilities and given new life by a movement forward. The momentum lost in 1954 with the E.D.C.'s defeat had to be regained. The Benelux proposals at Messina in June of 1955 and the Venice Conference a year later provided that momentum. The Spaak Report became the basis for a treaty-drafting conference in Brussels and by March 25, 1957, the six nations signed in Rome a treaty creating the European Economic Community.

THE LESSONS OF E.C.S.C.

Drafters of the Treaty of Rome leaned heavily upon the experience of the E.C.S.C. It provided them with an operational definition for the concept "common market." Its performance in four years also taught them its shortcomings and limitations.

Three valuable innovations of the E.C.S.C. Treaty proved their worth. The first was the idea of achieving accepted change in the direction of economic integration by gradualism—by definite *transition stages.* These had been modest in the Coal and Steel Community—consisting of a gradual reduction of tariffs for Italy's highly-protected steel industry and of the gradual abolition of Belgium's subsidies for coal. A second innovation was the use of weighted majority voting in the Council of Ministers, an intergovernmental institution of the E.C.S.C. structure. This had relatively scant use in the E.C.S.C. because of the comparatively strong position guaranteed the High Authority by the treaty. A third innovation was the "readaptation" provisions of the treaty which ensured that industry or labor, if injured by the shift to a common market, was eligible for assistance in the form of low-cost loans (for modernization and reconversion for industry) and direct aid, retraining and relocation for displaced labor.

Other new measures first introduced by the E.C.S.C. in Europe such as its embracing anti-trust and anti-restrictive trade practice laws, its federal-type institutions, its harmonization of transport rates, its mobility for coal and steel workers across national frontiers were mainly adaptations from United States practice. Indeed, the Treaty drafters had looked beyond their shores for example and lesson in the federal experience of the United States. They extrapolated, not imitated. The federal structure as it applied to the economic life of the United States had developed organically in response to demands created by the gradual industrialization of a

once-agrarian nation. Europe, on the other hand, faced the problem of integrating an already highly-developed modern industrial society still fragmented by a jigsaw puzzle of national frontiers.

The institutional structure of the Community, as exemplified in the E.C.S.C., represented a conscious effort to bring Europe within some sort of federal framework. A collegium executive, a parliament elected from and by national assemblies and a supreme court provided the classic tri-partite balance on the federal model. Only the fourth institution—the Council of Ministers—upset the otherwise tidy picture.

"Supranational" was a term that enjoyed popular usage in 1952. It was used in the E.C.S.C. Treaty to define the particular extra-national powers of the executive branch, the High Authority. Yet by 1957 it was no longer in vogue and did not appear in the E.E.C. Treaty. One lesson learned was that the High Authority did not always use its treaty-given powers of supranationality. Another was that the High Authority's failure to consult regularly with the Council sometimes created misunderstandings between national administrations and the European executive.

Another shortcoming of the E.C.S.C. Treaty was its specificity. It was literally too precise in spelling out the details of how the common market for coal and steel was to function, leaving little or no room for flexibility in dealing with conditions not precisely anticipated by the Treaty.

In retrospect, perhaps the major drawback of the E.C.S.C. Treaty was its failure to provide the executive branch with authority over commercial relations with third countries.

THE E.E.C. TREATY

In January, 1958, the E.E.C. Treaty came into force. It was a sprawling, complex document of 248 articles, plus appendices, annexes and protocols. In truth it was less unwieldy than it appeared. The "transition period" innovation had been carefully adapted as a timetable device for the gradual demolition of intra-Community tariffs and quotas over a 12 to 15-year period and was also employed to phase out in orderly fashion other forms of discrimination and restriction, and to introduce common or "harmonized" policies over a broad economic range.

Dislocations to industry and labor as a result of a European-wide common market were foreseen and their effects were minimized by creating assistance provisions—measures since imitated in the United States in the form of "trade adjustment" and "aid to distressed areas." The origin of these measures was found in the E.C.S.C.

In the E.C.S.C., the Council of Ministers had been mainly a consultative body whereas in the E.E.C. it became a powerful decision-making body. This shift of power from the European executive to the intra-governmental organ seemed to deny federal aspirations. In effect, the E.E.C. Commission could only propose measures to bring the general common market into existence. It was up to the Council to dispose of the authority by acting on the proposals. However, the innovations of "transition period" and "weighted majority" were exercised again. These ensured that the Council's decisions would shift from unanimous vote to weighted majority vote over the three transition stages, each of four years. Thus, the Council itself, by the gradual abolition of the rule of unanimity, would take on some of the character of a federal institution.

In contrast to the precise and specific E.C.S.C. Treaty terms, the E.E.C. Treaty offered a broad framework which would enable the drafting and adoption of common rules and policies to meet the circumstances and requirements of an evolving single European market. The drafters clearly foresaw the need to advance toward economic integration flexibly and pragmatically.

Historically, the most important departure of the E.E.C. Treaty was its recognition of the external effects that a European common market would have and the need to give to the executive the authority to deal with outside countries on matters of commercial policy.

PROGRESS TO DATE

At 5:29 A.M. on January 14, 1962, the Common Market entered the second four-year stage of its 12-year transition period. It marked an historical "point of no return" in the process of the economic integration of Europe. At that time, the Council of Ministers, after 200 hours of discussion and 45 working sessions, approved the first steps toward a common agricultural policy for Europe which in turn signaled the end of the first stage.

The changes that occurred cannot be underestimated. From now on only a proposal of the Commission can delay further progress through the transition period and even then only if such a proposition is accepted unanimously by the member states represented in the Council. The veto, which might have delayed the ending of Stage One, can henceforth be used only in the opposite sense—*to prevent delay* in ending Stages Two and Three. In addition, majority voting which already applied in the Council's proceedings on a large number of issues is now automatically extended to a number of others.

The common agricultural policy represented the most difficult political decision yet dealt with by the Community. The agreement will create, in effect, a federal European ministry of agriculture replacing the separate national agricultural policies and programs of member states. The common policy will start to take effect on July 1, 1962.

By the end of Stage One, the Community had adopted its first regulation implementing the Treaty's "anti-cartel" provisions and had drawn up and agreed to a timetable for the gradual equalization of pay for men and women. All discrimination in this area will end by December 31, 1964.

Not only did the E.E.C. keep to the timetable laid down in the Treaty; it also, through an acceleration decision of May 12, 1960, moved ahead of schedule in certain areas. At the end of Stage One, the main results were:

1. *Customs duties* within the Community were reduced by 40 per cent for industrial products, by 35 per cent for non-liberalized agricultural products and by 30 per cent for liberalized agricultural products. By July 1, 1962, tariffs on industrials are expected to be reduced by a total of 50 per cent—a speed-up of three and one-half years in the tariff-disarmament timetable. Industrial quotas, which were bilateral before the introduction of the Common Market, were changed to global quotas and, in accordance with the acceleration decision, were completely eliminated by December 31, 1961.

2. *The common external tariff* timetable was speeded up and first moves toward it were made a year in advance on December 31, 1960. At that time, adjustments to the external level were made. The common external tariff is an average of the tariffs that existed among the Community countries in 1957 prior to the E.E.C. Treaty. In cases where the existing tariff was within 15 per cent of the common external level, these tariffs were adjusted upward or downward to the common external level. This adjustment was made to the external level reduced by 20 per cent as agreed upon by the Community nations to stress their liberal tariff policies. In cases wherein the national tariff levels were more than 15 per cent greater or lesser than the common external tariff they were increased or decreased by 30 per cent toward the adjusted external level. If the acceleration pace is maintained, the common external tariff for industrial products may be achieved by December 31, 1965—four years ahead of schedule.

In the area of common rules, the Commission presented to the Council the first directive on the *free movement of capital* within the Six, a program for *right of establishment* and of *freedom to supply services.* It also submitted its first memorandum on the creation of a *common transport policy.*

3. *The Social Fund* regulation which came into effect on September 20, 1960, provided $50 million during the First Stage for workers' retraining and resettlement.

4. *The Overseas Development Fund,* the E.E.C.'s "Marshall Plan" program, by the

end of 1961, had contributed $276.8 million in direct grants to countries and territories (mainly in Africa) associated with the Community. By the end of 1962, $581 million will be allocated.

INTERNAL TRADE AND GROWTH

During the first transition stage, trade among the member states rose by 73 per cent in value, going from $7 billion to nearly $12 billion. During that period, expansion has been greatest for manufactured products (84.5 per cent) and especially for transport machinery and equipment (96 per cent). Growth was less marked for raw materials (34 per cent) and for foodstuffs (48.5 per cent).

Even though intra-Community trade is expanding more rapidly than its trade with the rest of the world, it represents no more than a small part of total production: between three and four per cent in Italy, four and five per cent in France, six and seven per cent in the Federal Republic of Germany, 13 and 14 per cent in the Belgo-Luxembourg Union, and 18 and 20 per cent in the Netherlands. In 1957, trade within the Community amounted to 6.6 per cent of world trade. By 1961, it accounted for nearly 10 per cent.

The total increase in industrial production in the Community during the first four-year period was 32 per cent. The gross Community product (including agriculture) increased by 21 per cent during the four years.

EXTERNAL TRADE

Community imports from non-member countries started to climb in 1959 and reached $20.4 billion at the end of 1961—an increase of 27 per cent in four years. The volume increase over the same period was 35 per cent. Community exports to non-member countries have kept pace with imports. At $20.4 billion at the end of 1961, they exceeded those of 1958 by 28 per cent.

In 1959, E.E.C. imports from the United States declined by six per cent whereas exports to the United States increased by no less than 42 per cent. Since then E.E.C. imports from the United States have shot up; the 1961 level exceeded that of 1958 by 44 per cent. However, exports have fallen off; the 1961 value of E.E.C. exports was 34 per cent above the 1958 level. The considerable deficit on the trade of the E.E.C. with the United States in 1960 and 1961 ($1.6 and $1.8 billions) did much to alleviate the United States balance of payments difficulties.

The E.E.C. Treaty planners, in their most foresighted moments, were unable to anticipate the impact of the Common Market upon the rest of the world within the short space of

COMPARATIVE TRADE INCREASES, 1958–1961

	IMPORTS	EXPORTS
E.E.C. (excluding intra-Community trade)	27%	28%
United Kingdom	17.5%	16%
United States	19%	15%

E.E.C. TRADE WITH THE U.S.
(in billions of dollars)

	1958	1959	1960	1961
Absolute value	$2.8	$2.65	$3.82	$4.05
Index of current value	100	94	136	144
Index of change as compared with previous year	...	94	144	106
Exports				
Absolute value (in million dollars)	1.6	2.37	2.24	2.23
Index of current value	100	142	135	134
Index of change as compared with previous year	...	142	95	99
Deficit on Trade (billions of dollars)				
	1.14	0.28	1.58	1.82

four years. Had they been able to do so, the Treaty would undoubtedly have contained many more specific provisos concerning relations with non-member countries.

Its unparalleled trade growth and its internal expansion, matched only by that of the Soviet Union, have commanded the attention of the rest of the world. Economists debate whether the steps taken in the first stage toward a common market or the "natural market forces" and "psychological factors" have in fact been responsible for the surge in growth.

Whatever the causes, the effects have created varied reactions in different parts of the world. Britain abandoned her traditional stance of aloofness from continental affairs and sought membership in the Community last fall. Two of her Scandinavian partners in the European Free Trade Association, Denmark and Norway, followed suit. Britain's neighbor, Ireland, spoke up for membership. The traditional "neutrals" of E.F.T.A. (European Free Trade Association or Outer Seven), Sweden and Switzerland, joined with politically-neutralized Austria in seeking some form of associate membership under the undefined terms of Article 328 of the Treaty. Greece signed a Treaty of Association in 1961 which is designed to lead eventually to full membership. Turkey continued negotiations for an associative arrangement similar to that of Greece. Informal inquiries concerning association arrangements were made by Israel, Spain and Portugal.

Nor was the impact confined to Europe alone. Latin America, seeking to adopt what seemed to be a successful formula for economic success, appeared ready to embark upon two separate "common market" enterprises. Even in Africa, newly-independent nations, formerly linked by colonial ties to Europe and now by a preference arrangement to the Common Market, themselves discussed "economic integration."

Less content and seriously concerned were members of the British Commonwealth—India, New Zealand, Australia and Canada—each fearing the impact of proposed British membership in the Common Market upon their preferential trade ties with the United Kingdom.

One index of the increased interest in and concern with the effects of the Common Market was shown by the fact that by the end of 1961, 35 nations had assigned accredited diplomatic envoys to the E.E.C.

THE U.S. AND THE E.E.C.

Atlantic partnership is a term that has won currency in recent months. It was coined in a report by former U.S. Secretary of State Christian Herter and William L. Clayton (to the Joint Economic Committee of Congress) to describe the emergence of a new relationship between the United States and the Common Market. It has since been adopted by the Administration and by spokesmen of the E.E.C., yet it remains to be clothed by explicit definition on both sides of the ocean.

Definition will follow usage rather than intent. Therefore, it is more useful to examine the present situation of the Community vis-à-vis the United States to define roughly the problems that exist and that are capable of solution.

The United States officially and unofficially has been an unabashedly enthusiastic supporter of European integration efforts since Marshall Plan days. In holding this view, it has stood alone among the outside nations. Now, seeing the European nations merging into a federal pattern not wholly unlike its own image and witnessing a powerful forward surge of industrial power and growth reminiscent of America's great growth period, the United States is pleased by the performance but disturbed by some of the prospects.

The United States has justification for this concern. Over the past four years, the E.E.C.'s industrial production and its national product have increased approximately three times as fast as that of the United States. Will the United States be able to keep on competing with the fast-growing giant? So far, it has. Despite lower wage scales in the E.E.C., United States industry's much higher productivity coupled with unfulfilled con-

sumer demand in the 170 million population of the Common Market countries has kept the balance of trade strongly in the United States' favor.

The future balance is another matter. Therefore, the Administration urges much wider across-the-board tariff cutting powers for the President and the actual abolition of tariffs on industrial products in which the United States and the E.E.C. together share at least 80 per cent of world trade.

A mutual reduction of tariffs (the E.E.C. common external tariff is lower than the weighted average of United States tariffs) is welcomed by the Europeans as indeed they have repeated frequently. The Commission of the E.E.C. has already offered to slash its own external tariff by another 20 per cent (following the 20 per cent "Dillon" cut) and has echoed the United States pledge that mutual tariff reductions between them would be automatically extended on a most favored nation basis, thus avoiding any danger of an Atlantic preference system.

Is tariff-cutting enough? E.E.C. observers believe that it is the essential first step. But they point out that the proposed "parnership of equals" cannot be founded and sustained only by a low tariff policy. Tariffs, as they have learned from the United States' experience and more recently from their own, are only a small part of the total trade picture. Protection goes under many names and is often sanctified by custom. Quotas can easily replace tariffs, private restrictive and monopolistic practices can distort and discourage competition, public tax policy, subsidies, and even "national interest" can take over the trade protection task as soon as tariffs are given up.

"OTHER PROBLEMS"

Can the "other problems" arising out of tariff-cutting be dealt with in the G.A.T.T. or in the O.E.C.D.? Or must a new formal framework of Atlantic cooperation (or integration) be created? European leaders such as Jean Monnet and E.E.C. Commission President Walter Hallstein have expressed the view that it is more realistic at the present moment to deal with the actual and immediate problems at hand on the basis of simple agreement upon common policies, using wherever possible the machinery of existing international institutions. They believe that in politics and economics as in architecture, form will follow function; that the structure can be designed and built only when there is knowledge of what will be put into it and who will use it.

There are still other problems involved in the proposed Atlantic Partnership to be examined. Many of these, as a result of the United Kingdom's application for E.E.C. membership, have acquired urgency. One such problem is that of our present international monetary exchange arrangements which, as has been seen in the persistent balance-of-payments difficulties faced by the United States and Britain, are clearly inadequate. The problem is whether our present arrangements are not archaic in the light of increasing economic interdependence and whether we should not move toward the creation of a workable international monetary system which would remove pressures upon principal trading currencies.

Another problem that arises partially as a result of the United Kingdom negotiations is that of the validity of existing preference systems—whether British or the E.E.C.'s. Are preference systems too restrictive for the world today? Can they be replaced by a wider system of joint responsibility for the economic welfare of less-developed nations?

To the preference system problem can be linked another complicated problem—how to deal with the production, trade and consump-

(*Continued on page 53*)

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If liberal trade policies are not adopted by the United States, "Three separate, regional trading blocs in the world might emerge: the European Common Market, the United States and the rest of the free world, and the Russian-Chinese Communist bloc." As this specialist points out: "Such a development would . . . defeat the principal objective of G.A.T.T.: free multilateral trade that results in optimum allocation of resources and, hence, higher standards of living and greater strength."

The General Agreement on Tariffs and Trade

By VIRGINIA GALBRAITH
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WITHOUT a doubt the General Agreement on Tariffs and Trade has contributed significantly to the expansion of free world trade. For the first time in history, a large group of independent nations has adopted the principle of free multilateral trade. Thirty-five countries (at the last meeting just concluded in Geneva), comprising four-fifths of all world trade, have engaged in negotiations since 1947 to reduce trade barriers among themselves. The tangible result of these meetings has been the significant lowering of tariffs on a multilateral basis.

At its birth, the General Agreement gave little promise of its later success. In 1947 it was viewed by member nations as a stopgap measure pending the establishment of an international agency for dealing with all aspects of commercial policy. This more ambitious venture, however, was stillborn and the G.A.T.T. continued as the only international working party on problems of trade barriers.

During the second world war, the State Department of the United States initiated proposals to expand world trade after the war. In 1945, after consultation with its Allies, the United States proposals were embodied in a brochure called "Proposals for Expansion of World Trade and Employment" and covered a very wide range of items affecting commercial policies of the nations involved. There were proposals on tariffs, preferences, quotas and licensing systems, subsidies, commodity agreements, restrictive business practices, the maintenance of full employment, and the development of new and underdeveloped countries. The United States State Department, with the endorsement of the United Kingdom, submitted these proposals to all members of the United Nations and in 1946 they became part of the agenda of the Economic and Social Council of the United Nations. There followed a series of international conferences attended by 50-odd nations for the purpose of implementing the proposals.

The final conference was held in the winter of 1947–1948 in Havana, Cuba. Here 53 nations signed the Final Act of the Conference that called for the adoption of the Charter of the International Trade Organization (I.T.O.). The I.T.O. was to be ratified as an international treaty by the signing nations and thereafter was to function as the

organization through which the commercial policies of the participating nations would be brought into line with the proposals in the Charter.

We shall never know how I.T.O. might have promoted world trade since its Charter was not ratified by the United States. Without the United States as a member, I.T.O. never came into being.

The very ambitious nature of I.T.O. was probably responsible for its failure to be accepted. I.T.O. went far beyond the question of tariff barriers. The section of the Charter on restrictive business practices, for example, tried to reconcile conflicting national viewpoints on international cartels. I.T.O. attempted to harmonize producer and consumer interests in commodity agreements in order to stabilize the prices of primary products. The Charter, moreover, called on all member nations to follow national policies to maintain full employment. Clearly these objectives were all desirable (perhaps necessary) means to expand the world economy, but just as clearly (to Congress at least) such measures constituted some forfeiture of national authority to an international organization.

At the same time that the I.T.O. was dying of over-ambition, however, the General Agreement on Tariffs and Trade was being established with modest objectives. The United States State Department sent its original proposals along with invitations to 15 countries to negotiate reductions in specific trade barriers: tariffs. Eight additional countries joined the group and in 1947 these 23 countries met in Geneva, Switzerland. Fortunately for the limited objective of reducing tariffs, the United States did not need congressional approval beyond that given by the extension of the Trade Agreement Act in 1945. Under this Act, the President held executive authority to reduce duties on imports by 50 per cent of the current level.

The meeting in Geneva produced the General Agreement on Tariffs and Trade. At the time the agreement was reached the participating countries looked upon it as an interim and provisional means to negotiate tariff reductions. G.A.T.T. was to be superseded by the appropriate provisions on tariffs of the I.T.O. Charter. What started out as a mere agreement to work together on one aspect of the Charter turned out to be the only international organization (a loose one with a very small continuing staff in Geneva) available for advancing world trade.

G.A.T.T. might have accomplished nothing more than a series of negotiations between countries on a bilateral basis similar to those undertaken before World War II, but it avoided this narrowness by adopting the rules of the I.T.O. Charter dealing with commercial policy. Basic among these rules is unconditional most-favored-nation treatment of member nations, which requires that concessions granted by one contracting party to another be made applicable to all contracting parties of G.A.T.T.

Other rules taken from the Charter are: the outlawing of the use of quantitative restrictions, free transit of goods, equality of internal taxation of imported and domestic goods, simplification of custom procedures, and periodic examination of members' subsidies. Many of these rules have suffered modification because of the divergent interests involved. Most important have been the modifications with regard to quantitative restrictions to protect a precarious balance of payments position, protective measures for helping underdeveloped countries develop infant industries, and restrictions to help countries with agricultural surpluses maintain internal price support programs. These modifications have severely weakened G.A.T.T.'s impact on world trade barriers. With the adoption of the most-favored-nation treatment, however, G.A.T.T. has achieved success in the reduction of one barrier: tariffs.

G.A.T.T. has conducted tariff-negotiating sessions since 1947 with over 30 countries. Hundreds of separate negotiations on thousands of commodities covering a wide area of trade have been involved. The negotiations are usually conducted bilaterally (as prior to G.A.T.T.) on a product-by-product basis. Each country negotiates an individual com-

modity's treatment with its past or anticipated "chief supplier" of that commodity. The agreements thus arrived at by these bilateral negotiations are then combined to form the schedule of concessions of the several countries. By this procedure each negotiating team is able to see not only how its position is affected by its own bilateral bargaining but by all the other simultaneous concessions being made around it. Thus, in effect, the negotiations are multilateral. And with the most-favored-nation clause the results are multilateral.

ACHIEVEMENTS OF G.A.T.T.

(1) *Tariff Reduction:* The most concrete results of the G.A.T.T. negotiations have been in the concessions on tariffs. It is impossible to measure the gains to the forty members, but the impact of changes in tariffs is suggested by the effect on American tariffs. Data on the average rate of duty on dutiable imports, 1926 through 1960, as computed by the United States Department of Commerce, are shown in Table I.

The dramatic decline in the average duty is the result of two factors: (1) the effect of rising prices on specific duties and (2) tariff concessions. (Changes in the composition of imports has been a negligible effect.) Most United States tariffs are specific duties, rather than *ad valorem*. This means that the duties are expressed per pound or per ton, rather than as a per cent of the value (price). Therefore, as prices rise, a specific duty constitutes a smaller per cent of the price of the commodity. For example, in 1930 the rate on garlic was 1.5 cents per pound and translated to an *ad valorem* duty, this amounted to 40 per cent. By 1950, the price of garlic had risen to the point that 1.5 cents per pound represented only 22 per cent of the price.

In his book, *American Imports,* Professor Don Humphrey[1] has estimated the role of price increases in the reduction of average rates of duty in an attempt to assess the true role of tariff concessions.

[1] Don. D. Humphrey, *American Imports* (Twentieth Century Fund, New York, 1955), p. 129.

Table I

U.S. average rate of duty on dutiable imports, 1926–1960 (in per cents)

Year	Per cent of duties to dutiable imports
1926–30 (average)	40.1
1931–35 (average)	50.1
1936–40 (average)	37.9
1941–45 (average)	32.1
1946	25.6
1947	19.3
1948	13.9
1949	13.5
1950	13.1
1951	12.3
1952	12.7
1953	12.0
1954	11.6
1955	11.9
1956	11.3
1957	10.8
1958	11.2
1959	11.5
1960	12.2

Source: U. S. Department of Commerce, *World Trade Information Service,* Part 3, No. 61–43, 1961.

In 1934 the average rate of duty was 46.7 per cent of the price. Had this 1934 rate prevailed in 1947 the actual average rate would have been 28.3 per cent due solely to the increase in the price of imports. However, tariff concessions before the war plus those given in Geneva in 1947 pushed the actual rate of duty down to 15 per cent. Rises in import prices have continued to reduce the ad valorem equivalent of specific duties. Further tariff concessions have been made through G.A.T.T. As a total result the average United States tariff has been reduced by 75 per cent since 1934. Price rises and tariff concessions share equal responsibility for the reduction.

A further look at Table I shows that since 1952 there have been no major reductions in United States tariffs. The ratio of duty

to dutiable imports has been nearly stable. The reason for this is that the United States is bound by the Reciprocal Trade Agreements Act and by the limitations of the peril-point and escape-clause amendments to the Act.[2] These have worked together to restrict the negotiations of the United States. As Professor Humphrey points out:

> These rules of procedure are so restrictive that negotiating teams cannot press their demands upon the other country first and then consider what can be offered in return, as is the customary technique of bargaining. The maximum concession permitted by law is known to all in advance, as is the escape-clause policy.[3]

These restrictions on United States negotiating power have become increasingly important. President Kennedy in his announcement of the agreements reached in Geneva this year commented:

> The United States operating under the severely circumscribed authority of the present Trade Agreements Act was unable to offer concessions of equal value to the Europeans. This was true even though the President went below the peril-point rates recommended by the Tariff Commission on a number of items. In spite of the inability of the United States to offer equivalent concessions, the community agreed to close the negotiations on the basis of the concessions finally offered by the United States.[4]

Thus, G.A.T.T. was largely responsible for reducing tariffs between 1947 and 1952, but since then the reductions have been insignificant as a result of the limitations of United States commercial policy. The influence of United States commercial policy upon the future of G.A.T.T. will be considered below.

(2) *Settlement of Disputes:* A further accomplishment of G.A.T.T. has been its success in settling disputes about concessions between members. If a member felt that another had violated the rules, reneged on concessions or in any way did not live up to the agreement, the complaint was brought to the G.A.T.T. meeting. Either the members in dispute settled their grievances bilaterally or else a working committee of the contracting members studied the dispute and made recommendations. If the member in violation refused to abide by the settlement, the aggrieved member was allowed to retaliate by withdrawing some concession. Usually compliance has taken place, although there have been a number of refusals to accept settlement. One of the dramatic United States refusals involved cheese concessions to the Netherlands. The Netherlands in retaliation raised restrictions on imports of wheat flour from the United States.

G.A.T.T. has provided an international means for settling trade disputes, however, and this in itself is an important step in encouraging freer international commerce. This function of G.A.T.T. has been so important that after 1953 the contracting members set up a panel to act on disputes and since then both the number of complaints and their successful settlement have increased.

(3) *Quantitative Restrictions:* G.A.T.T. has not been a primary means by which quantitative restrictions, such as import quotas and import licenses, have been eliminated. The members of G.A.T.T. have no power, except by consultation and persuasion, to force a country to give up its restrictive policies. Prior to 1958, restrictive practices by Western European countries were largely the result of a weakening balance of payments position and deteriorating international monetary reserves—particularly in dollars. Beginning in 1958, Western European countries returned to full currency convertibility with the dollar (at least for foreigners), generally reducing quantitative restrictions.

[2] Under the escape-clause, included in all United States Trade Agreement Acts since 1951, the Tariff Commission must determine if any domestic party has been injured or threatened with injury *as a result* of a tariff concession by the United States. The President may take escape-clause action (withdraw or modify the tariff concession) or refuse to do so; but any action must be explained to Congress. Under the peril-point provisions, *before* entering into a trade agreement the President must ask the Tariff Commission for a list of commodities to be considered and the Commission must report the maximum decrease in duty allowable before injury or the minimum increase in duty necessary to avoid serious injury. Again the President is not bound to follow commission recommendations, but must explain to Congress if he does not.

[3] Humphrey, *op. cit.*, p. 120.

[4] Text of the White House Announcement of the Tariff Agreement reached in Geneva, *New York Times*, March 8, 1962.

Other countries, however, especially the underdeveloped nations, have found it either desirable or necessary to maintain quotas on imports and some form of exchange control.

(4) *Agricultural Restrictions:* It was noted above that when G.A.T.T. was set up it accepted the rules of the I.T.O. Charter. One of these rules provided that those countries maintaining agricultural surpluses and internal price support programs should be allowed to impose quotas on imports of agricultural commodities (and fish) if equally restrictive production controls were applied to internal products. Both imports and domestic production might be subject to severe and *equal* restriction, since if equal, foreign sellers could be expected to retain their approximate share of the market.

The United States internal farm policy has made us one of the principal offenders. We have agricultural protection for a wide range of products on which import restrictions are applicable, but on which equally severe production controls are not included. For example, Section 22 of the Agricultural Adjustment Act authorizes the President to restrict imports of commodities, either by fees or quotas, whenever such imports render or tend to render ineffective or materially interfere with programs of the United States Department of Agriculture. In addition, the Defense Production Act of 1950 directs the President to control imports which unnecessarily burden any domestic farm program. It was under this amendment that cheese and other products were placed under quotas.

As indicated above, in order to reconcile this quota with our commitments under G.A.T.T., we found it necessary to request a waiver from G.A.T.T. (The United States is now obliged to follow certain rules and procedures in the use of quotas on agricultural goods.) The result has been to stymie G.A.T.T. in its efforts to eliminate quantitative restrictions.

These, then, have been the major accomplishments—and failures—of the General Agreement on Tariffs and Trade. And what of its future in promoting free world trade? The most significant factors affecting the future of G.A.T.T. and free trade are the creation of the European Economic Community (the so-called Common Market) and United States commerical policy.

COMMON MARKET AND G.A.T.T.

The Common Market is, first of all, a customs union among the six European nations signing the Treaty of Rome in 1957. This treaty provides that all tariffs between members are to be abolished, and a uniform tariff is to be adopted vis-a-vis other nations. But the Common Market is envisaged as more than a customs union. It is a broad plan for the gradual coalescence of the economies and perhaps political unity of the six nations.

Since the creation of the Common Market, the member nations have moved rapidly toward the elimination of tariffs among themselves. By January, 1962, tariffs on industrial goods within the Common Market had been cut by 40 per cent and import quotas had been eliminated.

As a result of the widening of the internal market there has been a tremendous surge in economic growth of the Six—twice the rate of growth of the United States. With the further reduction of internal barriers this growth can be expected to continue. Projections by the Twentieth Century Fund in *Europe's Needs and Resources* indicate that by 1970 total gross national product and per capita income in 1960 prices (of the 18 Western European countries who will eventually be in the Common Market) will be nearly equal to the current United States gross national product. Europe will be as large and rich a market as the United States by 1970. Adjustments that will be required of outsiders will in some cases raise formidable problems.

The Common Market's external tariff, which according to the Treaty of Rome is an average of the tariffs of the Six prior to the Common Market, has raised the tariff for outside nations trading with West Germany and the Low Countries. As a result, Britain, Denmark and other exporting nations seek admission to the Common Market. If they finally enter (as is fully expected) this will mean, according to President Kennedy, that

"there will arise across the Atlantic a trading partner behind a single external tariff similar to ours with an economy which nearly equals our own." The United States, as well as its Allies and trading partners of Latin America and Japan, will be left on the outside.

Three separate, regional trading blocs in the world might emerge: the European Common Market, the United States and the rest of the free world, and the Russian-Chinese Communist bloc. Such a development would, of course, defeat the principal objective of G.A.T.T.: free multilateral trade that results in optimum allocation of resources and, hence, higher standards of living and greater strength.

Were the United States able to negotiate with the Common Market for a general liberalization of trade, however, a gigantic free trade area encompassing all nations of the free world might be created. It is this dazzling alternative to trading blocs that has led President Kennedy to ask for a bold new trade program for the United States.

The G.A.T.T. negotiations just concluded in March show why the United States must adopt a much broader trade program than would be achieved by an extension of the Reciprocal Trade Agreements Act. The United States had two objectives in these negotiations: to secure a reduction in the external common tariff of the Six and to see that the common agricultural policy of the Six took account of the interests of United States agricultural exporters.

The United States was severely handicapped in achieving either objective. For the first, the Common Market agreed to an exchange of concessions which involved a 20 per cent reduction in tariffs on industrial goods. But operating under the restrictions of the Trade Agreements Act, the United States was unable to offer concessions of equal value —even though the United States went below the peril-point on a number of items. The Common Market, however, accepted the concessions offered. Obviously this altruism will not continue and the United States must be able to make equal concessions if the Common Market's external tariff is to be lowered for American exports.

In achieving its second objective, even greater difficulties arose. The Common Market is just in the process of establishing a common farm policy. When this is accomplished it is expected to result in expanded agricultural production in most of the Market countries. Such expansion may largely eliminate the European market for our farm products. This is of strategic importance to the United States since our farm exports to Europe are a major item in our balance of trade and provide an important source of payments for our European imports and overseas military expenditures. Our negotiators were able to obtain only limited concessions on farm products. More important, the forthcoming announcements failed to mention "the E.E.C. rejection of the United States request for a commitment that its historic share in the European Market for farm products would not be reduced through operation of a common agricultural policy employing variable import levies to support expansion of its own farm output."[5]

To overcome these obstacles to the United States' successful negotiations in G.A.T.T. and with the Common Market, President Kennedy has presented a new trade bill to Congress. The bill covers four major aspects of commercial policy: First, the gradual elimination of all tariffs on goods in which the United States and the Common Market supply 80 per cent of the world trade. Second,

(*Continued on page 54*)

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[5] *Op. cit., New York Times,* March 8, 1962.

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The European Common Market "has dramatized the need for adapting the important trade links between Europe and Africa and reconciling them with the new desire of independent Africa for greater intra-African contact in all fields, including trade." According to this specialist, the Common Market "has also highlighted the differences between those states favoring an Eurafrican pattern of trade and those like Guinea and Ghana . . . seeking to forge new trading relations with the Communist bloc."

African Problems of Trade and Aid

By Arnold Rivkin
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The West and the Communist bloc, even if they would, cannot ignore the advent of Africa on the world stage. The very newness and magnitude of the sudden political "leap forward" of Africa pose any number of questions as to the most appropriate and effective role of the more established societies in African economic development—as trading partners, as sources of private investment, and as suppliers of economic and technical assistance.

Some answers to these questions are being provided by the Africans themselves in the early policies and actions of the newly independent states. Some are implicit in discernible features of the African scene, especially the economic structures on which the independent and nascent states now rest. It is with these inherited economic structures—the legacy bequeathed by the departing colonial powers to the former colonial territories—that any consideration of the needs of the economies of the new states must start.

What then are the basic areas of need of the economies of the largest part of Africa, the fulfillment of which are most likely to induce the much-sought-after goal of a satisfactory and accelerating rate of economic growth?

Now and in the foreseeable future the *basic phase* of economic growth for the preponderant area of Africa lies in concentration on the vitally important agricultural sector, on exploration and charting of the mineral potential and its development whenever discoveries are made, on building an adequate transportation grid, and on developing the human skills and capacities indispensable to the growth of a modern economy. The *next phase,* which only a few of the new states are facing, will involve building on the capital formation resulting from export earnings, creation of an adequate transportation system, and increasing supplies of skilled and semi-skilled labor. It will, we believe, look toward the development of a secondary, processing and service industry and the expansion of social overhead facilities to service the needs of the growing economies.

The brief examination of the phases of growth for African economies undertaken in the following paragraphs is necessarily schematic and obviously requires adjustment to meet the needs of the situation obtaining in any specific country.

For a large part of Africa, export earnings arising from cash crops are the major source of income, and they are likely to be so for

some time to come. Hence the development of the agricultural export sectors by improving their efficiency and broadening their base through diversification of the crops cultivated is of extreme importance. Primary producing economies, and particularly monocrop economies, are susceptible to the vagaries of world market demand and price fluctuations. Ghana and its dependence on cocoa, the Sudan and its reliance on cotton, and Ethiopia and its dependence on coffee for 60–65 per cent of their respective export earnings are prime examples of the importance of the agricultural export markets to African areas to earn foreign exchange and the reserves necessary to finance internal development.

AFRICA'S NEEDS

There can be little question of the desirability of developing the mining sectors of African economies whenever possible. Such development would not only augment export earnings but also serve to diversify monocrop economies most quickly and attract foreign private investment. An important prerequisite, however, topographical and geological mapping to locate promising areas for exploration and prospecting, still awaits accomplishment in a large area of Africa. Even the mineral-wealthy Congo has been far from fully explored. In the words of a recent report, "while the minerals of the higher areas to the east of the territory are exploited, the possible mineral wealth of the low-lying bulk of the territory has as yet been hardly explored."[1]

In the present stage of African development, Lord Lugard's observation made four decades ago still remains apposite: "The material development of Africa may be summed up in the one word 'transport.'"[2] There can be little doubt that there is a pressing need to develop the transportation grid of Africa. At present it is all too much like a series of radiating spokes from the interior of the continent to the coastline without any cross-connections between the spokes. If an internal market is to be developed and if political cohesion is to be achieved, adequate transportation systems are essential.

If economic development is to be sustained, there is a pressing need for improving the skills of African labor. All too frequently African areas are afflicted by the anomaly of labor shortages amidst potentially large pools of manpower. The need is two-fold, to increase agricultural productivity on the one hand, and on the other to achieve increasingly skilled and settled labor supplies for mining, transportation, secondary and service industry, and public and overhead service functions.

The next stage of growth in the industrial sectors and in the area of basic infrastructure of society cannot be treated here except to say that in many areas of Africa it is likely to follow naturally upon the growth of the sectors emphasized in the foregoing discussion and in others to develop *pari passu,* the pattern varying with the resources of the area, the developmental history up to the present, the flow of investment capital, and, of course, the type of economic planning decisions now in the making by African states.

In sum, the areas of economic activity critical for African development suggest the need for external contributions of development capital, technology adapted to African conditions, personnel to help train Africans, and, in the transitional period now being entered upon, personnel to help develop and operate essential services. Moreover, it is important for planning purposes and as an affirmation of confidence in the emergent states that assurances be given of a continuing and sustained free-world interest that would ensure the expansion of external assistance as the absorptive capacity of the African economies grows. Adequate external aid to Africa would be desirable in the free world's interest even if no apparent alternative source of assistance were available. In the presence of an alternative source, and it must be recognized that the Communist bloc is such an alternative, it becomes imperative.

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[1] O.E.E.C., *Economic Development of Overseas Countries and Territories Associated with O.E.E.C. Member Countries* (Paris, 1958), p. 21.

[2] Sir F. D. Lugard, *The Dual Mandate in British Tropical Africa,* 2nd ed. (London, 1923), p. 5.

TRADE

Africa now and for a long time to come must accord priority attention to its export trade. The bulk of African economic activity in the monetized sector centers around export trade. The vital foreign exchange indispensable to modernizing the African economies is earned in export trade. The bulk of public savings in most African states derives from marketing board earnings on primary products exported to Europe and the United States and export taxes. The bulk of cash-crop agriculturalists in Nigeria, Ghana, and other African states with multiple smallholder-producers are engaged in production for the export market. The large number of wage-earners employed in Uganda, Kenya, Tanganyika, and other African countries raising cash-crops are engaged in producing for export trade. Much of the purchasing power developing internally in African countries is doing so as the result of expanding export trade. Thus, at this stage in their development, for most African states, international trade is the major sector of economic activity.

A large group of African states must now, with independence, decide whether the structure and direction of their trade are to be based on Eurafrican or pan-African concepts. President Senghor of Senegal has delineated the choice and stated his own preference in these words:

> There must be a new extension of our relationship vertically to Europe and to America—the child of Europe—and horizontally to the whole of Africa, even to Asia. . . . Continentalism is a form of autarky. . . . Africa cannot do without the other continents, especially Europe and America, except at the price of increasing its relative backwardness. . . . At the last Pan-American Conference . . . there was talk about an African Common Market. Actually, the African economies are more competitive than complementary.[3]

Thus the central importance of the European Economic Community—the Common Market—and its association with Africa. The Treaty of Rome which brought the Common Market into being sought to expand trade between the European Six and the associated territories and countries, primarily located in Africa, by two main procedures: (1) enlarging the European market of the Six for the tropical products of the associated territories and countries through tariff preferences provided under a common six-nation external tariff, and (2) enlarging the African market for exports from the European Six by reducing tariffs and enlarging quotas on imports from the Six. A by-product was to be expanding trade among the associated territories in Africa, since liberalization of tariffs and quotas on trade between Europe and Africa would also liberalize tariffs and quotas on trade among African territories.

This has been given little attention, but if the E.E.C. continues in a revised form with African members, it may in time become an important factor in the increase of trade among the African member-states and in the development within Africa of trading blocs that would be approximate counterparts of the European Common Market and the European Free Trade Association (E.F.-T.A.). Such a development would reinforce the effects of the special Eurafrican trade relations among the members and associates of the Common Market.

The common external tariff of the Six provides the associated African territories with duty-free markets in the member-states for important tropical agricultural products, thus affording them a preference of varying proportions over other producers in Africa and elsewhere. The associated territories are allowed to retain their tariffs against third countries. They need only progressively abolish their tariffs on commodities from the Six and from each other on an agreed timetable, but this is subject to the important proviso that they may continue to levy duties on trade within the E.E.C. "in accordance with their development needs and the requirements of their industrialization or those which, being of a fiscal nature, have the object of contributing to their budgets."[4]

Thus the associated territories, by opening

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[3] Léopold Sédar Senghor, "West Africa in Evolution," *Foreign Affairs*, XXXIX, No. 2 (January, 1961), pp. 243–4.

[4] Article 133, Treaty of Rome, March 25, 1957.

their markets to the European Six on an increasingly nondiscriminatory basis, are expected to improve their position as buyers by widening their choice of suppliers. They are also able to manipulate their tariffs and quotas on imports from third countries as their interests dictate. At the same time, duty-free access to the markets of the European Six is expected to provide a potentially significant advantage to the associated territories with respect to such key tropical exports as cocoa, coffee, and to a lesser extent, bananas, hardwoods, and vegetable oils.

All the former French territories in Africa except Guinea which have achieved independence since 1958 remain associated with the E.E.C. This means that 12 states in former French Africa are still associated with the E.E.C. In addition, the former Belgian Congo, Somalia, and Ruanda-Urundi remain associated with the E.E.C. The first two are independent, and the last is scheduled to achieve independence as this article goes to press. All these states were colonies in 1957 when the Treaty of Rome setting up the E.E.C. was signed by the European Six; they became members of the Common Market by action of their respective metropolitan countries. Now the transformation of the constitutional relationships between France and Belgium and their territories has brought into question the very concept underlying the limited, nonvoting, derivative association of African areas with the E.E.C. By its name, structure, and purpose the European Economic Community assigns a peripheral role to African dependencies. The concept of such a community bears re-examination when in one sudden thrust almost all these dependencies achieve independence and become full voting members in the United Nations. The re-examination is now under way and a new status for the associated territories and countries is to be evolved to come into effect by January 1, 1963.

Although the trade advantages of the E.E.C. arrangement to the associated African countries have not yet been fully realized, the primary nonassociated countries concerned, especially Ghana and Nigeria, have centered their criticism of the E.E.C. structure on the Eurafrican Common Market trade arrangements. Guinea has attacked it on the ideological plane as "colonialist" and "imperialist." Guinea has also objected to the Eurafrican nature of the trade patterns involved and has inferred from them an anti-pan-African design to keep Africa of *l'expression française* divided from English-speaking Africa.

AN AFRICAN COMMON MARKET?

A vaguely defined African common market has been bruited about as an African substitute for the E.E.C. It has exerted some attraction for pan-African-oriented African leaders, but little for those concerned with European markets for their cocoa, coffee, and other primary products. Nevertheless, as a supplementary institution, or as a separate one totally unrelated to the problem of the E.E.C. but taking account of it, an African common market might over the long run prove attractive to a good many African states. More likely at the outset are regional trade arrangements such as the *Conseil de l'Entente* among the Ivory Coast, Dahomey, Niger, and Upper Volta.

The trade division between the European Six of the Common Market and the Seven of the European Free Trade Association has spilled over into Africa. In the current United Kingdom attempt to bridge the gap between the two organizations by working out a formula for its own membership in the Common Market, the African association with the Common Market may become an important factor in the negotiations now in process. What would the United Kingdom do about the Common Market trade preferences to former French Africa? Would France agree to extend these preferences to former British Africa? What is the attitude of the currently associated African states of the E.E.C. likely to be to sharing their preferences with other African states who might become members as a result of British adherence to the E.E.C.?

The Common Market has thus in a variety

of ways sharpened the issue of Eurafrican and pan-African relationships. It has dramatized the need for adapting the important trade links between Europe and Africa and reconciling them with the new desire of independent Africa for greater intra-African contact in all fields, including trade. It has also highlighted the differences between those states favoring an Eurafrican pattern of trade and those like Guinea and Ghana, discussed below, seeking to forge new trading relations with the Communist bloc.

INVESTMENT

As early as 1958 the first Conference of Independent African States at Accra, in the Resolution on Economic and Social Matters, expressed the willingness—in fact the desire—of independent African states for external private investment as well as assistance from public funds. The leaders of many of these states have openly proclaimed their interest in such investment by the free world, and some of them have adopted policies to attract it.

Africa's desire for external private investment must, however, be viewed in the larger context of the nature of the evolving economies. The pressure for quick, or at any rate visible, results, plus the serious shortage of indigenous capital and entrepreneurs, have resulted in a much larger and more active role by government in economic development than might otherwise obtain.

Ghana has demonstrated strong tendencies toward control of the economy and ownership of selected enterprises in the private sector. In Guinea, private foreign investment has been increasingly circumscribed. Only a few major investors in mining and bauxite processing projects have been left relatively untouched, while state trading in imports and exports was instituted soon after independence was achieved in late 1958. In early 1961, after over two years of state trading had resulted in failure, Guinea seriously modified such practices.

The Federation of Nigeria, in contrast to the growing trend in Ghana and Guinea, has reiterated its welcome to private foreign investment through its Minister of Trade, who, in a recent address to the Federation of British Industries, declared:

> We have no plans whatever for nationalizing industry to any greater extent than it is already nationalized. As you are aware, our public utilities are statutory bodies, but apart from these I can assure you that nationalization plays no part in our plans for the future.[5]

President Senghor of Senegal has also recently stated: "We aim to hold firmly to a middle-of-the-road socialism which is liberal and undoctrinaire—one which socializes all that should be socialized, beginning with the rural economy, but no more than that."[6] He could have been talking for any number of other new African states.

Thus all the new African states will leave some area of their economies open to outside private investment. The spectrum is a broad one, however, ranging from Nigeria at one end, where private foreign investment is likely to receive the warmest welcome, to Guinea at the other end, where outside private investment probably has the most limited entree.

AID

In the case of Africa the prescription for economic development of the late Senator Robert A. Taft, "trade, not aid," will not suffice. Africa requires both trade and aid in large measure and considerable variety. More perhaps than any other area of the world, African economic development is dependent on outside aid. For example, Nigeria and Ghana for their new development plans must look to external sources of assistance for about one half of the required capital; the independent states of *l'expression française* for the development plans must look to outside sources, primarily France and the Overseas Development Fund of the E.E.C. for over 90 per cent of the required

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[5] West Africa (London), No. 2277 (January, 1961), p. 77.

[6] Senghor, *West Africa in Evolution, op. cit.*, p. 246.

capital; and the other African states for their development plans must look to external aid for an average of between 50 and 75 per cent of their capital needs.

These substantial requirements for capital assistance from abroad contemplate a reasonable level of foreign exchange earnings by the African states. If there should be a break in world demand or a fall in world prices for Africa's primary exports, the need for capital assistance from external public sources would escalate accordingly. One reason for the large needs is the African compulsion to "catch up" and telescope the development period as much as possible. Another is the fact that states like Nigeria and Ghana which have been largely self-financing in their development have run down their considerable reserves earned from the export of cash-crops. A third reason is that states of *l'expression française* and some of the less wealthy former British territories have come to independence with little in the way of reserves and even deficits in their ordinary budgets which were made up during the colonial era by grants by the metropolitan country.

In addition to substantial capital assistance the new African states have major requirements for technical assistance, technical and operating staff, and transfers of technology. They need help in training African cadres for the public and private sectors and for staffing the expanding educational plants characteristic of most if not all of the new states. They have need for research scientists, particularly in the soil and agricultural sciences, to follow basic research as well as to adapt existing technology which is being transferred to Africa from outside.

How are these formidable needs for capital, technical assistance and personnel to be met?

The West, if it is to be effective in its efforts to aid African development, must inventory, mobilize and pool its resources. This means retaining and enlarging the aid flows from the former metropolitan countries and inducing new aid flows from the United States, West Germany, Canada, Japan, Israel and other free-world states able to contribute funds or men or both. It means correlating the new aid with the flows from the former European colonial powers, the E.E.C. Overseas Development Fund, and other multilateral international economic and technical aid organizations.

The West must move with alacrity and in a far-seeing manner if it is to meet the growing needs of the African states for development assistance as they move forward on the growth scale and their absorptive capacity increases and if it is to provide the new states with a reasonable alternative to the Communist bloc. This bloc is waiting in the wings for the main chance to tie the nascent political structures and fledgling economies of the new states to its tail through bloc aid-and-trade packages.

THE COMMUNIST BLOC IN AFRICA

The Soviet Union consistently fishes in troubled economic waters in accordance with Khrushchev's precept: "We value trade least for economic reasons and most for political purposes." For example, in recent years the Soviet Union purchased a significant amount of cotton from Uganda at a time when Uganda's sale of cotton to India was in sharp decline, purchased coffee from Ethiopia at a price far above falling world market prices, and purchased in an uncertain market situation about 20 per cent of Ghana's cocoa exports for the year to "commemorate" Ghanaian independence. The Soviet Union has also entered into a series of trade and barter agreements with Guinea, Ghana, Ethiopia and other African states. Although early, so far the trade diversion effect has been limited, and the trade creation effect even more so.

(*Continued on page 54*)

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The Communist Bloc in World Trade

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The disintegration of the single, all-embracing world market must be regarded as the most important economic sequel of the Second World War . . . so that now we have two parallel world markets . . . confronting one another. . . . It may be confidently said that, with [the rapid] pace of industrial development [in the bloc] it will soon come to pass that these countries will not only be in no need of imports from capitalist countries, but will themselves feel the necessity of finding an outside market for their surplus products.[1]

Thus wrote Stalin a year before his death. And if his body has since been denied the impressive granite mausoleum on Red Square and relegated to an unpretentious crypt in the shadow of the Kremlin wall, his forcible division of the world economy into "two parallel markets" remains a more imposing monument, unaltered and un-de-stalinized. The promise of self-sufficiency and the implied threat of commercial competition with the West had, of course, been expressed before:[2] but Stalin's words ring truer with contemporary reading. For the bloc may now have the potential to act on an economic strategy which at the time Stalin formulated it, scarcely a decade ago, could have been little more than a prophecy.

The Communist world market encompasses more than one-quarter of the earth's surface, thirty per cent of its population and more than one-third of its industrial production. Despite the increasing presence of this bloc in world trade (the foreign trade of Communist countries increased from approximately $9 billion in 1950 to almost $31 billion in 1960, accounting in the latter year for about 12 per cent of world trade), it remains unchallenged dogma that the bloc can find within that market all the goods required for its further development. As a consequence, the foreign trade of bloc countries is predominantly an exchange of goods within the Communist orbit; the bloc currently absorbs more than 70 per cent of the total trade of these countries with the U.S.S.R., by far the largest bloc trading partner, accounting for approximately 40 per cent of the trade of its Communist allies. East-West trade, although registering an almost three-fold increase during the decade 1950–1960, remains unimpressive. The Soviet bloc as a whole, the entire "parallel market," contributes little more than four per cent of the total trade of the non-Communist world; Soviet exports to Western countries in 1960 were less than $1.5 billion, or about the level of those of Denmark.

The process by which free nations in Western Europe have voluntarily sought to associate themselves in an "economic community," designed to secure for all the benefits of specialization and large scale production, stands in sharp contrast to the exploitation and coercion that have characterized Soviet-directed efforts to integrate the economies of Eastern Europe in accordance with its own long-term

[1] J. Stalin, *Economic Problems of Socialism in the U.S.S.R.* (New York: International Publishers, 1952), pp. 26–7.

[2] As early as 1939, then foreign trade minister Anastas Mikoyan had boasted: "Now with the victory of socialism, the country has become so rich that it can retain for itself everything it needs and export only the surplus. Our country is so strong now in the economic sense, that it can satisfy its fundamental needs without imports." *Land of Socialism, Today and Tomorrow* (Moscow: Foreign Languages Publishing House, 1939), p. 375.

strategic interests in the area. Stalin's policy in Eastern Europe was characteristically myopic and self-centered. After an initial period of confiscation and plunder of raw materials and capital assets threatened to destroy the economic foundations of his newly acquired satellite empire, Stalin sought to prescribe for them his own formula for "building socialism in one country."

COMMUNISM'S COMMON MARKET

Slavish imitation by bloc planners of the Soviet model of economic development, with its concentration on investment in heavy industry to the relative neglect of raw materials and agriculture, led inevitably to the development of parallel economic structures, autarkic national units each facing similar resource scarcities and each unwilling to depend on unreliable imports in its haste to fulfill plan goals. The Council of Mutual Economic Assistance (C.E.M.A.), created in 1949 as a much touted counterpoise to West European economic consolidation under the Marshall Plan, ineffectually sought to coordinate the bilateral trade agreements concluded between its members in an effort to assure minimum supplies of critical materials required by the independently drawn economic plans of East European countries. Reliance on the coordination of trade alone as an effective integrating mechanism proved unequal to the task, however; the shortages of imported raw materials and fuels continued to hamper the balanced growth of industrial output and the improvement of living standards.

In February, 1956, the Twentieth Party Congress repudiated Stalinism and with it Stalinist policy in Eastern Europe. Economic dislocation in the area, and the increasing political ferment to which it was contributing, had already prompted C.E.M.A. recommendations calling for more rational utilization of bloc economic resources and productive capacities through the coordination of national economic plans and the specialization of production. Now, in an implicit acknowledgement of the benefits of international specialization which Adam Smith had elaborated almost two centuries earlier, Khrushchev gave official sanction to the future integration of bloc economies on the basis of a "new international division of labor":

> Today it is no longer necessary for each socialist country to develop all branches of heavy industry as had to be done by the Soviet Union, which for a long time was the only socialist country and existed in a capitalist encirclement. Now, when there is a powerful group of socialist countries whose defense potential and security is based on the industrial might of the entire socialist camp, each European People's Democracy can specialize in developing those industries and producing those goods for which it has the most favorable natural and economic condition.[3]

The policy which has since emerged seems to have invested C.E.M.A. with new dimension and greater depth: coordination among Communist countries in Europe to be effected not only on the level of trade, but also at the level of output. While the primary aim of this new approach to bloc economic integration remains the desire to assure that the area-wide scarcities of vital products and materials that plagued bloc planners during an earlier period would not re-occur, the underlying theme of C.E.M.A.'s new efforts is to avoid parallel investment and to seek to complement and integrate the economic development schemes of its members.

Through the assignment of specialized production responsibilities to countries which enjoy more advantageous resources and other economic conditions, it is hoped to promote a more rational location of industry and a more equitable distribution of product, an increase in labor productivity and a lowering of production costs and, above all, a substantial increase in aggregate output of the bloc as a whole.[4] But what is also clearly envisaged in

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[3] *Pravda*, February 15, 1956.

[4] Reluctance of member countries to forgo the establishment of any major branch of production, particularly on the part of the lesser developed members who seek diversified economic structures, has effectively restricted bloc integration efforts to those in accord with the so-called "law of planned proportional development"—a formula which admits the desirability of "all-around development" of the productive capacities of each member and includes, for example, power, construction, light and food industries as well as the machine building capability required for these sectors, and the basic types of agricultural production.

these, on the whole, tentative efforts at integrating the bloc is not merely a "common market," but a series of successive transitional forms designed to implement, if only in microcosm, Lenin's injunction "of setting up a single world economy, regulated by the proletariat of all nations, according to a common plan."[5]

It would seem that conditions favorable to economic integration—a vast market, rich in human and natural resources, sharing common political ideals and socio-economic structures, and linked by a mutually expanding trade—are present in the bloc to a far greater degree than in Western Europe, and that the coordination of national investment, production and trade could achieve benefits equal to or exceeding those envisaged by the European Económic Community. In fact, however, there is little reason to assume that the errors and miscalculations in planning, the bottlenecks, and the dissipation of available resources which have so often characterized national economic planning in the bloc, would not be compounded by any serious attempt at supra-national planning.

Economically valid indicators are lacking; calculations of comparative costs are rendered difficult, if not impossible, by the divorce between internal and world prices as well as between the separate price structures of the bloc countries themselves.[6] Thus only the crudest determination of relative efficiencies in the assignment of specialization functions is possible. Moreover, the strictures on ultra-bloc movements of labor and capital and the rigid requirements for bilateral balancing of trade and payments would appear to render successful integration of these centrally-planned bloc economies vastly more difficult than market economies.

Whatever the ultimate success of economic integration in Eastern Europe, however, the centripetal tendencies of bloc planning are clearly evident. There seems little likelihood that the Soviet Union will permit its ascendancy in the area to decline or will allow satellite economic dependence on the U.S.S.R. substantially to diminish. On the contrary, published long-term plans envisage expanding intra-bloc exchanges and an even greater concentration of total trade within the Communist orbit. Indeed, the prevailing Soviet orientation of bloc trade would now seem to be economically advantageous for its members even if an alternative were feasible.

Communist China's industrialization program remains acutely dependent on Soviet technical assistance and deliveries of machinery and equipment; and its holdings of Western currencies, already drained by urgent imports for Western grain and other foodstuffs, would be inadequate for any large scale purchases of such capital equipment in the West.

In a similar fashion the accelerated development of heavy industry in Eastern Europe, based on a far less rapidly developing capacity for output of required raw materials, has engendered a high degree of dependence on the U.S.S.R. The Soviet Union is not only a source of industrial raw materials but, perhaps more importantly, a market for the bloc's expanded output of industrial products created and designed largely in accordance with Soviet requirements and generally non-competitive with similar products in the West.

Moreover, the economic patterns of these predominantly agricultural countries have been significantly altered. Many of their traditional agricultural exports have been reduced or eliminated, thus impairing their ability to revive their former export trade. Finally, the U.S.S.R., motivated by what it calls its "international proletarian duty," has served as the chief creditor of bloc countries supplying, since the war, more than $8.5 billion in economic credits and grants and technical assistance valued, at Soviet calculations, at more than $10 billion.[7]

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[5] V. I. Lenin, *Collected Works* (4th Russian Edition), Vol. 31, p. 125.

[6] The necessity for intra-bloc trade to be conducted on the basis of prices prevailing on the "capitalist" world market has prompted one Eastern official jokingly to admit that even after the world revolution it would be necessary to preserve one capitalist country: "otherwise how would we know at what prices to trade?" Quoted in A. Nove, *The Soviet Economy* (New York: Frederick A. Praeger, Inc., 1961), p. 192.

[7] *Vneshnyaya torgovlya*, No. 7 (July, 1961), p. 6.

EAST-WEST TRADE

It may seem a paradox that Communist countries should seek expanded trade with Western nations in the very pursuit of their common objective to achieve effective economic independence from the West. Such trade policies are, however, far from mutually exclusive; selected trade with the West provides a major contribution to the more rapid accomplishment of that greater bloc-wide self-sufficiency for which Communist planners admittedly strive.

Although exports from free world countries to the Soviet bloc comprise less than four per cent of their total exports, such trade exerts a considerably greater impact on bloc countries, accounting for more than 30 per cent of total imports into the area. Two-thirds of such imports are supplied by the more industrialized Western nations, reflecting the priority given by bloc economic development plans to engineering goods. The concentration of such purchases in the United Kingdom, West Germany, France and Italy (which together account for more than half the bloc imports from Western Europe) indicates the premium placed by bloc planners on securing the most technically advanced, high-productivity capital equipment, particularly in the form of complete industrial installations.

The investment requirements of the current Soviet goals of overtaking and surpassing the West are unprecedentedly heavy. In the past the consistently high Soviet rates of growth in basic industrial output, as elsewhere in the bloc, have been accomplished largely at the expense of investment in other contributing sectors, e.g., mining, metallurgy, transportation. The U.S.S.R .is currently attempting to mitigate these disproportions between capacity in investment goods industries and in sectors producing inputs for such industries. In addition, the present régime is committed to improving the lot of the consumer which requires sizeable investment in housing, agriculture and the chemical industry. Finally, the U.S.S.R. has undertaken to underwrite the economic well-being of other bloc members as well as to promote an economic offensive in underdeveloped free world countries.

These three sources of investment requirements—to compensate for internal structural imbalances, to expand domestic consumption and to support a foreign economic policy—when added to the contined stress on heavy industrial output, have imposed an awesome burden on capital equipment producers both in the U.S.S.R. and other bloc countries that already supply more than 80 per cent of Soviet import requirements for machinery and equipment. Continued recourse to Western goods—specifically capital equipment for the chemical, metallurgical, construction, textile and food processing industries and for the expansion of bloc oil and gas pipelines and transportation networks, as well as high quality steels and other basic materials—should help to ease the pressure that internal development and foreign commitments impose on bloc resources.

Thus the industrialized nations of the West are regarded by bloc economic planners as providing a reservoir of goods to supplement domestic sources, stimulate industrial technology, compensate for the failures and miscalculations of the planning mechanism. Above all, imports from the West help to save time, to achieve plan goals more rapidly than the efforts of the bloc alone would permit. Perhaps Khrushchev himself best characterized the essential motivation behind the current bloc import drive when, in reference to the forced expansion of the Soviet chemical industry (for which, incidentally, the West supplies more than 70 per cent of Soviet import requirements) he conceded that imports of such equipment from capitalist countries would provide the U.S.S.R. with "the opportunity of *quicker fulfillment* of its program . . . *without wasting time* on creation of plans and mastering of the production of new types of equipment."[8] (Emphasis added.)

There are, however, at least two factors which may tend to limit bloc access to Western markets. As bloc purchases in the West accelerate, the problem of finding sufficient quantities of marketable exports will become

[8] *Pravda*, May 10, 1958.

increasingly acute. While traditional exports of raw materials, fuels, particularly petroleum, and foodstuffs—and Soviet gold—should continue to provide the major source of foreign exchange earnings, rapidly increasing domestic and bloc-wide requirements for industrial and consumer goods suggest that current difficulties in expanding merchandise exports will not abate. Moreover, the commodity composition of bloc exports shows little indication of the diversification which is widely held to be a prerequisite for any substantial expansion of the volume of trade with the West.

As United Nations economists point out, manufactured goods, which account for the bulk of commerce among industrialized countries, make up only *one-fifth* of bloc exports to Western Europe. This relatively narrow range of export offerings hampers the development of trade with more industrialized nations particularly with the smaller countries of Western Europe with whom trade is already at relatively high levels.[9]

Secondly, the new preferential trading arrangements of the Common Market may compound bloc marketing problems by worsening the terms on which it can sell its manufactured goods, crude materials and foodstuffs within that area. The markets of Western Europe have traditionally provided the U.S.S.R. with the foreign exchange required for its purchases of needed raw materials in overseas sterling area countries; West Europe has offered Eastern Europe the hard currency with which to purchase modern machinery and advanced technological processes still primarily only available in the West. The problem may be particularly acute for countries such as Poland whose trade with E.E.C. countries accounts for a significant share of its total trade. The development of the Common Market threatens to ruin Poland's best hard currency market for coal, processed foods and other products.

Bloc reactions to the Common Market have been strongly defensive. A recent article in the Soviet journal *New Times* charges that "one of the announced objects of integration, besides creating a united West-European capitalist front against the socialist countries, is economic boycott of these countries." The author asserts, however, that the economic strength of the socialist world is such that it need not fear these threats: "The socialist countries urge maximum expansion of trade with the capitalist world not because they cannot get along without it, but because broader economic exchange is mutually advantageous and is a factor in promoting peace."[10]

In a more positive vein, the Soviet government and its East European allies have sought to dissuade non-members from associating themselves with the Common Market. Austria, for example, has been informed that if it negotiates an associate membership with the E.E.C., the U.S.S.R. would regard the act as a violation of its "neutral" status. And it may not be entirely coincidental that the Soviet Union recently (October 1, 1961) undertook to revise its tariff schedule, the first such revision in more than 30 years. The new tariff is admittedly "a political trade instrument" which "makes it possible for the Soviet Union, through measures of an economic nature, to protect its foreign trade interests and, especially, to oppose recent attempts by some capitalist states and their economic blocs . . . . to discriminate against Soviet commodities imported into these countries." It provides for minimum and maximum rates to be applied to foreign countries on the basis of whether or not such countries grant "most favored nation" treatment to the Soviet Union; this is clearly a device to threaten potential members with more difficult access to Soviet markets.[11]

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[9] United Nations, Economic Commission for Europe, *Economic Bulletin for Europe*, Vol. 13, No. 1 (Geneva, 1961), p. 41.

[10] N. Osipenko, "Common Market Contradictions," *New Times*, No. 9 (February 28, 1962), p. 6.

[11] *Vneshnyaya torgovlya*, No. 10 (October, 1961), p. 5 While even the maximum rates of the new tariff are relatively liberal, the use of the tariff as protection for the planned Soviet economy was, at the very outset, discarded in favor of a state monopoly of foreign trade. Retention of this anachronistic mechanism, however, enables the Soviet Union to conclude agreements with "most favored nation" clauses and make reciprocal concessions in duties, and at the same time protect the Soviet economy by limiting and structuring imports through administrative quotas.

FOREIGN TRADE OF THE U.S.S.R. AND EASTERN EUROPE, 1960
(in millions of dollars and per cent of total)

	U.S.S.R.[a]				EASTERN EUROPE[b]			
	Exports		Imports		Exports		Imports	
	Value	Per cent	Value	Per cent	Value	Per cent	Value	Per cent
TOTAL WORLD	5,562.1	100.0	5,628.9	100.0	7,657.0	100.0	7,829.4	100.0
SINO-SOVIET BLOC	4,083.5	73.4	3,821.6	67.9	5,385.6	70.3	5,475.6	69.9
U.S.S.R.	—	—	—	—	2,838.8	37.0	2,980.4	38.0
Eastern Europe	3,119.6	56.1	2,819.4	50.1	2,128.2	27.8	2,120.3	27.1
Communist China	817.1	14.7	848.1	15.1	343.4	4.5	328.6	4.2
Other Bloc	146.8	2.6	154.1	2.7	75.2	1.0	46.3	.6
FREE WORLD	1,478.6	26.6	1,807.3	32.1	2,271.4	29.7	2,353.8	30.1
Industrialized	971.8	17.5	1,069.5	19.0	1,458.5	19.1	1,629.0	20.8
Underdeveloped	469.4	8.4	730.9	13.0	565.5	7.4	522.9	6.7
Unaccounted for[c]	37.4	.7	6.9	.1	247.4	3.2	201.9	2.6

[a] *Vneshnyaya torgovlya SSSR za 1960 god* (Moskva: Vneshtorgizdat, 1961)
[b] Estimated data derived from a variety of official East European sources.
[c] Includes trade not allocated by country or origin or destination in official bloc statistics.

The state trading mechanisms of bloc countries, of course, provide the means for surmounting preferential tariff barriers and absorbing the losses implicit in any deterioration in the terms of East-West trade. The recurrent appearance of bloc commodities on free world markets offered at reduced prices clearly implies that the "losses" incurred in such cut-rate selling are deemed of minor significance when compared with the advantages of time and resources saved by importing industrial plant and equipment. A more likely response to the challenges posed by Western integration may be even greater reliance by bloc countries on trade within their own "market" and heightened competition with Western countries in third markets, particularly in underdeveloped countries.

Poland has apparently already concluded that in view of its changing relationship with the Common Market it will be difficult to count on any serious growth in trade with this area. The solution advanced provides for greater discipline in restricting Polish imports from E.E.C. countries to indispensable items, concentrating its purchases in countries which offer to take Polish goods in return. Such plans are already implicit in official projections of Polish trade through 1965 which provide for a larger share of total Polish trade to be directed to bloc markets and, within the non-bloc sector of its trade, a proportionately greater share with underdeveloped countries.[12]

UNDERDEVELOPED COUNTRIES

The specter of Soviet economic warfare suggested by Khrushchev's unilateral declaration of a "war through trade" has been magnified by the proliferation of bloc trade and aid activities in underdeveloped countries of the free world. Since the inception of the program shortly after Stalin's death, bloc trade with this area has tripled under the impetus of economic cooperation agreements concluded with 28 underdeveloped countries providing for credit extensions totalling $6.5 billion. Bloc aid personnel in recipient countries now number approximately 8,500 and more than 4,000 students from underdeveloped countries are currently enrolled in higher educational institutions of the U.S.S.R. alone.[13]

[12] *Nowe Drogi*, No. 11 (November, 1961), p. 201–15.
[13] *New York Times*, April 15, 1962, and *Pravda*, October 25, 1961.

The disproportionately large political impact of the bloc economic program is more a tribute to the skill with which its propaganda value has been exploited than to its size. Thus far the program has been relatively modest and is presumed by Western observers to be many times less than the bloc's capacity to sustain. Nonetheless, Soviet political success has led many in the West virtually to abandon the underdeveloped world to the economic and political blandishments of the bloc. Even among writers of less despairing tendencies, the prevailing picture is portrayed as discouraging for the free world especially when viewed against the Communist advantages of state monopolies of foreign trade directed by a unity of commercial and political interests, and of economies whose ostensible demand for a wide range of foodstuffs and consumer goods enables them to absorb with profit the agricultural and raw materials surpluses of primary producing nations.

But need we accept, without qualification, this dismal prospect of unimpeded Soviet success in reversing the classical doctrine of "trade follows the flag" and subverting newly independent states? On the contrary, given the dogmas and emphases of Soviet planning, the structural advantages of its economy in trading with underdeveloped countries may be more apparent than real. Khrushchev's juxtaposition of economic for more traditional forms of the international class struggle has not, apparently, elicited unanimous support either from within his own party or within the world Communist movement.

As noted earlier, priority Soviet import requirements are predominantly for advanced capital goods and technology, items for which underdeveloped countries have little immediate export potential. And published Soviet plans through 1965 and beyond do not appear to provide for any rapid growth in imports of those raw materials and foodstuffs which would be of most interest to underdeveloped countries. Plans for increasing the domestic production of cotton and wool, coupled with the introduction of synthetic fibers, and the successful implementation of current goals for developing new synthetic "natural" rubber substitutes, could markedly limit the future Soviet market for these goods which, in 1960, comprised almost 45 per cent of total Soviet imports from underdeveloped countries. Prospects for any sizeable increase in the imports of foodstuffs (which accounted for 32 per cent of Soviet imports from the area in 1960) must also be regarded as generally unfavorable in view of the apparent disinclination of Soviet planners to increase the prevailing low level of dependence on non-bloc sources of food.

Tea, rice, jute, hides and lead ores are all current imports from underdeveloped countries for which replacement by domestic or bloc production is planned as part of the quest for greater bloc-wide self-sufficiency. The problem of disposing of large-scale politically inspired imports "surplus" to planned increases in the share of domestic consumption has probably not as yet reached serious proportions. Nonetheless, reported instances of bloc re-exports of cotton, sugar and other commodities at lower than world market prices may already herald such an eventuality. Increasing bloc production, coupled with the necessity to accept an even higher level of such imports when bloc credits are repaid, may soon compound the problem.[14]

Moreover, there is cumulative evidence to suggest that Khrushchev's more flexible approach to foreign economic policy has been subjected to the critical review of an increasingly vocal "anti-give-away" sentiment among Communist elements both at home and abroad. The trade and aid program has apparently caused some concern among more conservative party members. Aware of critical equipment needs at home and elsewhere in the bloc, they question the economic "profitability" of any large-scale export of capital resources which slows the pace of domestic

[14] Although, admittedly, these conclusions are more relevant for the virtually self-sufficient U.S.S.R. than for its more trade dependent Communist allies, the preponderant role of the Soviet Union in the bloc program (the U.S.S.R. accounts for approximately three-quarters of all credits thus far extended by the bloc to underdeveloped countries and almost half of all bloc trade with the area) may permit such generalization for the bloc as a whole.

capital formation, in exchange for foodstuffs and consumer goods which are of relatively low priority on an orthodox Soviet planner's preference scale.

Such sentiments also enjoy ready sympathy among the Chinese and Albanian leadership which gives only nominal support to the whole idea of trade and aid as significant factors in the national liberation struggle and which employs such arguments to bolster its own contention that the Soviet Union has treated non-bloc nations more generously than it has its own more deserving Communist allies.

Of course, if the Soviet (and bloc) leadership becomes more responsive to the long suppressed desires of its people for a substantially higher standard of living, it may be more inclined to export industrial equipment and manufactured goods in exchange for such staples of underdeveloped countries as coffee, cocoa and tropical fruits and vegetables. Indeed, the competition offered by an increasingly integrated Western Europe may impel such a development. But, on balance, the extent to which the Soviet bloc will be willing to continue to absorb a substantial share of the traditional products of primary producing countries and to make the internal planning adjustments required by such an exchange, will more likely reflect the demands of political expediency than any predictable economic imperatives.

It would be gratifying indeed to conclude that Soviet economic and political planners have at last become enlightened enough to permit the bloc to participate in an international division of labor wider than that afforded by the "socialist world market." Unfortunately, a review of recent Soviet foreign trade policy warrants no such optimism. The Soviet leadership may now be more concerned with increasing consumer satisfaction; but it will not permit itself to be dominated by consumer demand. Machinery and equipment to produce consumer durables are still more likely imports from the West than are large quantities of consumer goods; and grain will continue to be grown at high cost in the marginal growing areas of Kazakhstan and Western Siberia while the possible advantage of a greater reliance on imported foodstuffs is rarely acknowledged.

Western economic integration has added new impetus to the autarkic tendencies long endemic to bloc economic planners and its efforts are already clearly reflected in current policies designed to ensure that the bulk of future bloc requirements for raw materials, fuels and equipment will be met from production within the Communist orbit. Imports from the Free World may be expected of those products which are difficult to produce domestically or where bloc technical and productive capacity lag significantly behind that of the West: but such imports will continue to be regarded as a residual rather than an integral part of bloc economic planning, and will be governed less by calculations of comparative costs than by marginal needs which tend to alter quickly with changes in domestic production and fixed priorities.

There is little question that the U.S.S.R., rich in natural wealth and possessed of a powerful monopoly of foreign trade capable of harnessing such resources in the interests of national and international policy objectives, poses a formidable potential challenge to the free world. But, at least for the foreseeable future, the full dimensions of the Soviet economic threat may be severely limited by a continued qualitative dependence on Western technology and equipment and a "proletarian-internationalist" obligation to underwrite the economies of its dependent bloc allies. Ironically, the U.S.S.R. seems to be handicapped by an anachronistic policy on foreign trade which seems strangely at conflict with the new role and functions which Khrushchev has assigned to it in the era of "competitive coexistence."

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"If economic union may ultimately lead to political union in Western Europe, the nationalistic and separatist sentiments of the Asian countries will probably continue to exert their divisive effect on efforts to promote economic integration." It is very possible that in the Far East, "regional economic integration will develop only relatively slowly. . . ."

The Far East Trade Complex

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There are a number of interesting issues concerning the external trade of the Far East that are directly or indirectly related to discussions on the broadening of the membership of the European Market through the accession of Great Britain and the nature of the response of the United States to this development. Most of these problems have been in existence for some time. The European Common Market discussions have merely served as another occasion to call attention to their existence and seriousness.

Of these problems the principal ones that will be discussed in this article have to do with (1) the degree of economic interdependence of the countries in question, (2) the desirability and feasibility of regional economic cooperation in a manner similar to the Common Market of Western Europe, as well as in other ways, (3) trade of the same countries with the Sino-Soviet bloc, particularly Communist China, (4) the prospects of trade between Communist China and Japan and rivalry between the two countries in third markets, and (5) the nature of possible future problems in the area in the light of the above factors, and their relation to developments in Europe and America. It should also be mentioned at the outset that the term "Far East" is used in a broad sense to include both eastern and southeastern Asia. In some respects the discussion and statistics referred to will also encompass India, Pakistan and Ceylon, all British Commonwealth members in South Asia.

As a starting point, we may first look at the degree of economic interdependence of those countries in the Far East for which statistical information is readily available. As a measure of interdependence we shall use the ratio of each country's trade with other countries in the same area to its total external trade with all countries in the world. Such an index ignores of course the indirect and secondary effects of trade on the economies of the countries concerned, and these effects vary with the nature of the goods in question. For instance, countries that import raw materials from the region may find that actually a much higher proportion of domestic production and employment depends upon these imports than their ratio in total imports would indicate. On the other hand, if imports from the region consist of consumer's goods, their secondary and indirect effects would be much less than in the previous case, although this would not be true if food imports representing a significant proportion of total food supply are involved. In the case of the exporting countries, whether the exports consist of primary products or manufactured goods would again make a significant difference.

Bearing these considerations in mind, we may examine the imports and exports of 18 Asian countries and areas with the so-called ECAFE[1] region, the latter including Burma, Cambodia, Ceylon, China (mainland and Taiwan), the Federation of Malaya and Singapore, Hong Kong, India, Indonesia, Iran, Japan, the Republic of Korea, Laos, North Borneo and Sarawak, Pakistan, the Philippines, Thailand, and the Republic of Vietnam. The 18 countries in question correspond to the same ECAFE region except that Iran and Communist China have been excluded inasmuch as Iran's external trade problems should be considered more properly in connection with the Middle East rather than the Far East while Communist China has also been excluded at this point so that attention will be focussed on economic interdependence from the point of view of the free world countries in the region. Inclusion of Communist China and Iran among the trading partners of the individual countries under consideration will not, however, distort the findings and will affect only a few countries and areas, such as Indonesia, Ceylon and Hong Kong slightly.

As can be seen from the statistics given below, there is generally speaking a high degree of interdependence measured in this manner. On the export side, of the 18 countries and territories listed, intra-regional exports averaged to less than 20 per cent of total exports only in the case of Ceylon and India, the median ratio being about 42 per cent, with a range varying from 13.4 per cent (Ceylon) to 78.0 per cent (Taiwan), On the import side, again only two of the 18 countries listed showed an interdependence ratio of less than 20 per cent, the median being about 47 per cent, the extremes being represented by 17.6 per cent (India) and 86.1 per cent (Sarawak).

Furthermore, the same general picture can be obtained by comparing the relative importance of intra-regional trade of these countries with their trade with Western Europe and the United States.[2] On the export side, in the case of only five of the 18 countries and territories did Western Europe account for the largest share of total exports in the period 1957–1959; in only one instance did exports to the United States during this period exceed those of Western Europe and the ECAFE region respectively. The first five countries are Ceylon, Malaya, India, Pakistan and Vietnam; the last is the Philippines.

On the import side, Western Europe as a region topped the list of imports into India, Pakistan and Vietnam during 1957–1959; the United States, on the other hand, was the most important source of imports into Japan, South Korea and the Philippines. The identity of these countries indicates that historical political ties and special economic relation-

TABLE I

RELATIVE IMPORTANCE OF INTRA-REGIONAL TRADE, AVERAGE 1957–1959

(Per cent of Total Trade)

East and Southeast Asia	Exports to ECAFE Region	Imports from ECAFE Region
Burma	73.7	50.5
Cambodia	37.7	52.3
Hong Kong	48.3	54.3
Indonesia	43.9	39.1
Japan	33.2	22.1
South Korea	71.3	13.7
Laos	63.9	52.4
Malaya	25.3	49.6
North Borneo	63.4	54.9
Philippines	23.1	26.6
Sarawak	60.6	86.1
Singapore	40.4	65.7
Taiwan	78.0	43.2
Thailand	60.7	48.8
Vietnam (South)	23.3	32.7
South Asia		
Ceylon	13.4	44.2
India	17.9	17.6
Pakistan	27.4	23.8

Sources: UN ECAFE, *Economic Bulletin for Asia and the Far East,* Vol. XII, No. 1. Bangkok, June, 1961, p. 22, Table 4.

[1] That is, the Economic Commission for Asia and the Far East.

[2] For detailed statistics see the source of Table I.

ships—exemplified in memberships in the British Commonwealth and the sterling area as in the case of India, Pakistan and Ceylon, the dominant position of rubber and tea as exports to Western Europe in the case of Malaya and Ceylon, the large volume of United States aid goods imported into Korea and historical United States ties with the Philippines—are key factors in determining the direction of trade.

Where these factors are inoperative or not too influential, intra-regional trade becomes the more dominant factor. This is true in a large majority of the countries and territories in question. Geographical position—in the case of Indonesia, Laos, Borneo and Sarawak—and the significance of food in the country's external trade—as in the case of Thailand, Burma and Vietnam—all appear to be conditions working for a greater relative importance of intra-regional trade.

GREATER INTEGRATION?

Since the preceding account shows that considerable economic interdependence exists for a majority of the 18 countries and territories mentioned above, notwithstanding such important exceptions as India and, in the case of imports, Japan, it is somewhat tempting to deduce from this situation the notion that a greater degree of regional economic cooperation can be easily fostered. This, as we shall see, is not the case.

However, there are good and even compelling reasons for more intensive economic integration.[3] Since the end of World War II, exports of the primary products of the area have not experienced the same measure of growth as exports from the industrial countries or even exports of primary products from other parts of the world. Price instability has compounded the problem. Because of population growth, demand for manufactured consumers' goods and food will continue to rise while economic development will necessitate increasing quantities of producers' goods. However, exports cannot be expected to grow fast enough to pay for an increase in imports that would meet these rising demands. Consequently, more will have to be produced within the region and, for countries that experience greater difficulty in producing capital goods themselves, substitution of domestic manufactured consumers' goods and food for imports will have to take place to a high degree.

To put it simply, countries in this area must produce more and trade more with one another to eliminate the need to import increasing quantities of goods for which they will not be able to pay. The hope for greater interdependence within the region may be realized inasmuch as underlying economic conditions have already created considerable interdependence.

Several ways of regional economic cooperation suggest themselves readily. One formula, for instance, would be to encourage Japanese exports of capital goods to the less developed areas among the other ECAFE members in the region in return for a larger flow of industrial raw materials and, secondarily, of food. Since some of Japan's capital goods exports may not be competitive with Western products, preferential tariff treatment accorded to Japan may be helpful if a regional common market is created. Alternatively, or as a part of such a scheme, Japanese exports to the other Asian countries may be paid for with foreign aid funds by means of "off-shore purchases." Still another measure would be the establishment by several countries or territorial units of joint enterprises, such as large steel mills, which, by virtue of their large size as minimum efficient operating units, would be under-employed and uneconomical if a large market were not created.

Finally, without going so far as establishing an Asian Common Market that would tend to encourage the replacement of high cost producers by low cost imports from other members within the Common Market and hence a certain degree of specialization in individual areas, different countries may carry out a minimum amount of consultation and cooperation so that unnecessary conflict, such as the simultaneous encouragement of the

[3] For a full discussion of the postwar trade developments, see especially UN ECAFE, *Economic Survey of Asia and the Far East, 1959.*

same primary exports to the same external markets, might be avoided.

OBSTACLES TO REGIONAL INTEGRATION

From the point of view of the Far Eastern countries as a whole, the economic advantages of, and need for, regional economic integration can be readily argued. Virtually all the ideas mentioned above have been discussed at one time or another by some of the countries and in the United Nations Economic Commission for Asia and the Far East. An example of the seriousness with which this problem is viewed in a few Asian quarters may be found in the announcement in the spring of 1962 that Malaya, Thailand and the Philippines had agreed to form an Association of Southeast Asia (ASA). This aimed at the conclusion of certain multilateral arrangements in trade and navigation while initial steps of exchanging research personnel, promoting tourism on a joint basis and facilitating travel between Kuala Lumpur and Bangkok would be taken immediately.[4]

An earlier example of intra-regional economic cooperation may be seen in the joint project to survey and develop the hydro power potential of the Lower Mekong Basin[5] initiated in 1951 and involving Cambodia, Laos, Thailand and South Vietnam. A still earlier forerunner of regional technical assistance and consultation is the Colombo Plan consisting of 17 members, including Burma, Cambodia, Ceylon, India, Indonesia, Japan, Laos, Malaya, Nepal, Pakistan, the Philippines, Thailand, Vietnam, Australia, Canada, New Zealand and the United Kingdom and dependent territories. Finally, it should be mentioned that, at its sixteenth session, the United Nations ECAFE put itself again on record as favoring economic integration by adopting a resolution calling for regional economic cooperation and the adoption of measures to promote intra-regional trade which would make possible sustained growth in a larger market.[6]

Still other instances may be given of political proclamations of regional or Asian solidarity and of tentative schemes of regional cooperation in the acquisition and disbursement of aid from the outside.[7] Yet while there may have been a growing, though extremely gradual, awareness of the need to solve some of the economic problems of the area on a regional basis, very few concrete measures of quantitative significance have thus far been taken. At its 1962 meeting in Tokyo, the ECAFE failed to reach a decision to act upon the proposal to form an Organization for Asian Economic Cooperation paralleling the European Economic Community. The discrepancy between words and deeds persists, and one is forced to reexamine the nature of the obstacles.

The success of the European Economic Community has been attributed by some acute observers to the fact that it has caused relatively little injury to producers in its member countries.[8] High cost producers in some industries affected by lower-priced imports have in many instances been able to develop, and specialize in, related lines of products without being forced out of the particular industries altogether. Developing new products and new markets has been made easier as a result of the generally burgeoning economic activities in Western Europe. On the other hand, where serious injury cannot be averted, high cost producers are given temporary relief. These conditions have been further supported by the fact that as obstacles to trade fall away, European producers have been able to expand their supplies to take advantage of the expanding market. The benefits of the dynamic aspect of trade liberalization have thus come into play.

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[4] *The Strait Times*, Singapore, April 9, 1962.

[5] Cf. David R. Wightman, "The Struggle for Economic Co-operation in Asia and the Far East: The Experience of ECAFE," paper presented to the Golden Jubilee Congress of the University of Hong Kong, September, 1961.

[6] Resolution 31 (XVI), adopted by the Commission on March 18, 1960.

[7] Mr. Harold Stassen included in his recommendations to Congress on the Mutual Security Program for 1956 a proposal to set up a $200 million President's Fund for Asian Economic Development with the purpose of promoting regional economic cooperation. The idea was discussed at Simla in May 1955, but met little support from individual countries, including the United States.

[8] See Irving B. Kravis in "Thinking Ahead," *Harvard Business Review*, March-April, 1962.

Unfortunately, there are good reasons to think that these conditions do not exist in many of the Asian countries studied here. First, some of the countries in question are members of the British Commonwealth and the sterling area. This may create complications if a regional grouping is formed. Second, technological versatility and multiple product firms are not prevalent in the less developed areas of Asia. As a result, the competition of foreign products may drive high cost producers out of the field completely, so that infant industry protagonists would have a field day in arguing their case. Third, in the case of exporters of primary products, their short-term supply may not be highly responsive to an expanding market even if the latter should become a reality. Long-run supply, on the other hand, can be expanded only with additional investment and more general economic development. Yet availability of adequate resources for investment and its financing are precisely among the most critical problems of the area.

Finally, apart from the rate of investment, other conditions of growth, such as monetary stability, political peace and an efficient administration, may be lacking. The rates of past growth of national income in the ten free world countries in this area for which information is available have been highly disparate, to say the least. They vary from a high of 9.2 per cent a year in Japan for the period 1955–1956 to 1959–1960 to a low of 2.1 per cent in Pakistan and Indonesia for the periods between 1955–1956 and 1959–1960 and between 1956 and 1959 respectively.[9] On a per capita basis, the corresponding figures are 8.2 per cent for Japan, 0.2 per cent for Pakistan and – 0.6 per cent for Indonesia. In the circumstances, it would be somewhat unrealistic to assume that economic growth would be automatically forthcoming in all the countries in question and that it would provide a stimulus to trade liberalization that would in turn promote further growth. The cumulative and snowballing process may in some instances only bring about continued stagnation.

NATIONALISM AND POLITICS

While economic conditions for greater intra-regional cooperation among the Asian countries are not encouraging, it is probably correct to maintain that the most important, single obstacles remain nationalism and the understandable, but exaggerated, conception of the importance of independent action on the part of some of the governments of the new nations. Economic development is identified with industrialization which is interpreted to mean (1) the promotion of "balanced" growth as against over-specialization and (2) the establishment of key capital goods industries such as national steel mills.

These attitudes are not compatible with the economists' recommendation for greater regional integration. Thus while Jawaharlal Nehru and others may call upon Asian countries "to hold together and to advance together,"[10] the few concrete acts toward regional integration have been most limited and tentative in scope. Such political issues as membership in Seato on the part of some of the countries, reparations settlements by Japan, and fear of Japanese influence have all become at one time or another intricately interwoven into the problems of development and trade.

Differences in political outlook and alignment make it exceedingly difficult for some of the Asian countries to look forward to free movements of labor and capital and to close coordination of their respective monetary and fiscal policies. Yet, having ruled out these far-reaching goals, adjustments to possible balance of payments difficulties with other members of the region following any hypothetical scheme of intra-regional trade liberalization are made all the more difficult. If economic union may ultimately lead to political union in Western Europe, the nationalistic and separatist sentiments of the Asian countries will probably continue to exert their divisive effect

[9] For more details, see "A Decade of Development Planning and Implementation," U.N. ECAFE, in *Economic Bulletin for Asia and the Far East,* Vol. XII, No. 3, December, 1961.

[10] Jawaharlal Nehru, *Independence and After,* speech to the 1947 Asian Relations Conference at New Delhi.

on all efforts to promote economic integration.

TRADE WITH THE SINO-SOVIET BLOC

If the prospects of satisfying the internal economic needs and aspirations of the Asian countries through normal trade expansion with the rest of the free world are not particularly bright, and if intra-regional economic cooperation is also fraught with difficulties, a logical question may be raised concerning the possibilities offered by trading with the Sino-Soviet bloc. A review of available trade statistics of 11 of the Asian countries with the Communist bloc permits us to make the following observations:

(1) If comparison is made between 1956, when trade of the Asian countries with the bloc began to attract Western attention,[11] and 1960, we find that exports from nine Asian countries or territories to the Communist bloc, i.e., the U.S.S.R. and Eastern Europe, staged an increase during this period both in absolute and in relative terms. The nine are Cambodia, Ceylon, India, Indonesia, Malaya and Singapore, Pakistan, Thailand and Japan. On the other hand, only Cambodian, Indonesian, and Malayan exports to Communist China also increased in this manner. Exports to Communist China from the other six declined both absolutely and in relation to their total exports. Burma's exports both to China and to the Communist bloc also declined sharply during this period.

(2) In the case of Asian imports from the Communist bloc, absolute increases were registered between 1956 and 1960 in the case of Cambodia, Ceylon, Hong Kong, India, Malaya and Singapore, and Japan. No complete data are available for Thailand. With the exception of Indonesia and Hong Kong, this is virtually the same list as that of Asian exports to the bloc. The increases were also relative increases in terms of percentage of total imports from all countries into the Asian areas in question. Imports from Communist China increased both absolutely and relatively in the case of Cambodia, Indonesia and Malaya and Singapore, but absolutely only in the case of Burma and Hong Kong. Declines, both absolute and relative, are reported for Ceylon, India, Pakistan, and Japan with respect to imports from China and for Burma and Indonesia with respect to the Communist bloc.

(3) During the second half of the 1960's, Communist China improved her position in relation to the Communist bloc as a supplier to the Asian areas only in trading with Burma and Indonesia. As a market for Asian products her position was improved only in the case of Cambodia and Indonesia. In all other instances, Communist China's relative position either deteriorated or was barely maintained.

(4) In spite of the sharp increase in its trade with some of the Asian countries, as of 1960, the entire Sino-Soviet bloc still accounted for a minor portion of free Asia's trade with the world. If we exclude Hong Kong which enjoys a special position as an entrepôt, Indonesia and Cambodia, buying 15 per cent of their imports from the entire bloc in 1960 (the latter also selling 10 per cent of her exports to the bloc) have probably established the strongest trade ties with the bloc. In the majority of cases, the relationship is quantitatively far less significant.

The above statistical information adds up to a picture which shows an undoubtedly concerted effort on the part of the Communist countries to establish trade ties with Asia during the 1960's. It also points to the fact that with a few exceptions such as Indonesia and Cambodia, significant inroads have not been made. If comparison is made between 1956–1960 and 1952–1956, the effort of Communist China appears to have lagged during the later period.[12] Burma also offers an example of a general reversal suffered by the entire bloc in its trade expansion program. The relatively poor performance of Communist China in recent years was apparently related to her domestic economic difficulties which have followed over-expansion in 1958–1959. The same phenomenon, however, also raises the question of what renewed Chinese

[11] Cf. Yuan-li Wu, "The Soviet Economic Offensive in Asia and Its Effect on United States-Asian Trade," in Robert J. Barr (ed.), *American Trade with Asia and the Far East*, 1959.
[12] *Ibid.*

competition might mean to the rest of the world if economic recovery in Communist China should bring her back as a strong competitor.

COMMUNIST CHINA AND JAPAN

At this point, some aspects of Sino-Japanese trade relations may be mentioned, because they have a strong bearing both on direct trade between the two countries and on Sino-Japanese rivalry in the rest of Asia. For the rest of the free world, any significant substitution of China for Japan in trade with the rest of Asia and any large expansion of direct Sino-Japanese trade would obviously have serious economic as well as political repercussions.

As far as direct trade is concerned, those who advocate an expansion of Sino-Japanese trade usually advance two arguments. First, it is generally pointed out, for instance, that exports to, and imports from, Communist China accounted for as little as .07 per cent of Japan's exports and .5 per cent of Japan's total imports in 1960. The corresponding figures of the China trade in 1930–1939 were 21.6 per cent of Japan's exports and 12.4 per cent of Japan's imports. These comparisons are meant to indicate the existence of a tremendous potential that, under a somewhat different political alignment, might be available to Japan. A second argument refers to the lower prices of certain imports from China. For instance, compared with the prices of imports from the United States, the CIF prices of imports from China in 1956 would have been 32.5 per cent lower for iron ore, 53.5 per cent lower for coal, and 48.2 per cent lower for salt.[13] Considerable savings could therefore be made if Japan's trade were re-channeled toward the Chinese mainland.

The first point, however, ignores the fact that the prewar volume of trade was influenced to a large extent by Japanese investment activities in China as well as Japan's privileged position, especially in Manchuria. It also overlooks the fact that out of 17 major Japanese imports only three, namely, coal, timber and hides, could be supplied in adequate quantities by the entire Sino-Soviet bloc if the latter were to divert its exports from other non-Communist countries to Japan.[14] Without a major shift in China's direction of trade away from the rest of the bloc, there would be little room for expanding trade with Japan. Besides, unless the rate of economic growth in Communist China is stepped up considerably, which, however, may not result in a corresponding increase in exportables or in the demand for imports from Japan, direct trade would not offer too much potential for expansion.

This is not to deny the possibility of some increase, especially in items now under export controls from Japan, if a political rapprochement between the two countries were brought about. As for price considerations, the previous argument ignores the fact that there may also be quality differences and that Chinese prices are subject to sudden[15] changes when market conditions make them feasible. All the uncertainties inherent in trading with a state monopoly must be faced and the risk is compounded where the state trading companies are an acknowledged part of the apparatus of economic warfare.

(*Continued on page 54*)

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[13] See Norman Sun, "Prospects and Problems of Trade between Japan and Mainland China," Paper presented to the University of Hong Kong Golden Jubilee Congress, 1961.
[14] Cf. George Waldstein, "Showdown in the Orient," *Harvard Business Review,* November-December, 1954.
[15] See note (13) above.

Summary of the Trade Expansion Act of 1962

The following summary of President Kennedy's new trade legislation, as presented to the United States Congress on January 25, was prepared in the Office of International Trade:

TITLE I—TITLE, EFFECTIVE DATE, AND PURPOSES

1. *Title.* "Trade Expansion Act of 1962."

2. *Effective Date.* July 1, 1962.

3. *Statement of Purposes.* The statement outlines the essential general welfare, foreign policy, and security purposes of U.S. trade policy and the objective of promoting these purposes through international trade agreements affording mutual benefits. It refers explicitly as among its purposes to the strengthening of economic and political relations with the European Economic Community and with other foreign countries, the assisting of less developed countries, and the countering of Communist economic penetration. The statement also refers to the provision of trade adjustment assistance as a purpose of the new act.

TITLE II—TRADE AGREEMENTS

1. *Tariff Reduction Authority.* The bill provides the President with the following types of authority to reduce United States tariffs in trade agreements entered into not later than June 30, 1967:

(a) *General Authority.* In relation to countries generally, the President is authorized to reduce existing duties by 50 per cent.

(b) *E.E.C. Authority.* In negotiations with the E.E.C., the President is authorized to exceed the 50 per cent limitation and to reduce tariffs to zero on products within categories of which the U.S. and the E.E.C. together account for 80 per cent or more of world exports as measured in a representative period. Intra-E.E.C. trade and intra-Communist bloc trade are excluded from the measurement of world exports. Tariff reductions or eliminations under this authority may be made on agricultural products which do not meet the 80 per cent "dominant supplier" rule, provided the President finds that such action will tend to assure the maintenance or expansion of U.S. exports of such products.

(c) *Special Authority for Tropical Agricultural and Forest Commodities.* The President is authorized to reduce or eliminate tariffs on any tropical agricultural or forest commodity or primary products thereof if the E.E.C. agrees to take similar action on a nondiscriminatory basis and if the commodity or product is not produced in significant quantities in the U.S.

(d) *Low-Duty Authority.* The President is authorized to eliminate tariffs on products which are dutiable at a rate of 5 per cent or less.

2. *Prerequisites to Negotiations.*

(a) *Tariff Commission Advice Prior to Negotiations.* The President must furnish the Tariff Commission with a list of the products or product categories on which negotiations are proposed. Within 6 months of receipt of the list, the Tariff Commission is required to advise the President as to the economic effect of reductions or eliminations of duties. The Tariff Commission may hold

hearings in the course of its investigations. The President may not enter into a trade agreement until he has received the advice of the Tariff Commission or until the expiration of the 6-month period, whichever is the earlier.

(b) *Reserve List.* The President is required to reserve from trade agreement negotiations any product subject to an escape clause or national security action taken under this or prior trade agreement acts. He may also reserve such additional products as he deems appropriate.

(c) *Notice.* The President is required to give public notice of intention to enter into trade agreements and provide opportunity for presentation of public views, including views on the reservation of any article from the negotiations.

(d) *Transmission to Congress.* The President must transmit to the Congress any trade agreement entered into under this act, stating in the light of the advice received from the Tariff Commission and other relevant considerations his reasons for entering into the agreement.

3. *National Security Provision*

(a) *Suspension of Benefits to Communist Countries.* The bill continues the existing provision that the President shall deny the benefits of trade agreement concessions to the U.S.S.R. and to countries which are dominated or controlled by international communism.

(b) *Safeguarding National Security.* The bill repeats practically verbatim the present provision of the trade agreements legislation relating to national security. Under this provision the President is required to restrict imports when he determines that an article is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

4. *General Provisions*

(a) *Most-Favored-Nation Principle.* All tariff reductions made under this act will be generalized on a most-favored-nation basis except for the discriminatory action specifically authorized with respect to the Communist bloc. This M.F.N. principle applies not only to the general negotiating authority but also to the special authority for negotiations with the E.E.C., the tropical products authority, and the low-duty authority.

(b) *Suspension of Benefits.* As in present legislation, the President is authorized to suspend trade agreement benefits to any country which discriminates against U.S. commerce or engages in other actions which in the opinion of the President tend to defeat the purposes of this act.

(c) *Staging Requirements.* Tariff reductions made under this trade agreements authority are in general to take effect in not less than five equal annual installments. They may take effect in unequal intervals and amounts provided the sum of reductions at any one time does not exceed what would occur under five equal installments. No staging is required for reductions of not more than 25 per cent of the existing rate or actions taken under the tropical products or low-duty authority.

(d) *Status of Existing Escape Clause and National Security Actions.* Past actions taken to grant relief under the escape clause and national security provisions of prior legislation will continue in effect except that escape clause actions taken more than three years before the effective date of the new act will terminate one year thereafter unless extended by the President.

TITLE III—ADJUSTMENT ASSISTANCE[1]

1. *Forms of Adjustment Assistance.* The bill provides the following forms of adjustment assistance to meet difficulties due to increased imports of like or directly competitive articles as a result of tariff concessions:

(a) *Assistance to Firms.* This includes: (1) technical assistance, (2) various forms of financial assistance, and (3) tax relief in the form of special carryback of operating losses.

(*Continued on page 55*)

[1] Subsection 2, Eligibility for Adjustment Assistance, is omitted for reasons of space.

BOOK REVIEWS

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THE SCHUMAN PLAN. A STUDY IN ECONOMIC COOPERATION, 1950–1959. By William Diebold, Jr. (New York: F. A. Praeger, for the Council on Foreign Relations, 1959. 750 pages, bibliography and index, $6.50.)

THE SOVIET ECONOMY: AN INTRODUCTION. By Alec Nove. (New York: F. A. Praeger, 1961. 328 pages, appendix, bibliography and index, $6.75.)

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BRITISH DILEMMA

(*Continued from p. 15*)

proposed changes in Britain's relations with the Commonwealth; it is rather an international one cropping up with increasing frequency in all parts of the world wherever, in fact, the new industries of the underdeveloped countries have begun to produce an exportable surplus of cheap, simple manufactures. As a world problem, it can be solved only on world terms.

It is striking, indeed, how much the difficulties raised for Commonwealth exporters by Britain's application to join the E.E.C. are, if in more acute forms, those very problems which beset the whole system of trading relations between the developed and underdeveloped world: how to find markets for food which the highly capitalised agriculture of the industrial nations can now produce in abundance? how to absorb the surplus of tropical products? how to give countries in the course of industrialisation the opportunity to increase, as they must, their export earnings by selling manufactures as well as primary products? how, too, to secure an adequate flow of investment capital to the underdeveloped countries to ensure a regular improvement in their pitifully low living standards?

This last is a problem that, for the Commonwealth, has already been internationalised. Never since the war has Britain been able to meet the Commonwealth's needs for capital imports. First the United States, now the E.E.C., are looked upon as sources of foreign aid. Clearly the same process is being repeated in Commonwealth trade. Britain's role has diminished, is diminishing and will diminish further. British membership in the E.E.C. will speed up the transformation of the Commonwealth trading system, even eliminate some of its features altogether, but in so doing it will only be reinforcing a profounder trend.

The ties binding the Commonwealth into an economic entity are already weakening; some of them will snap under this new strain; some, it is to be hoped, will stand firm. Still more is it to be hoped that that concept of giving poor countries easy access to rich markets, which is the distinguishing virtue of the Commonwealth trading system, will be adopted by the E.E.C. to the general benefit of underdeveloped countries. The preferential and restrictive aspects of the Commonwealth system, the preferences accorded to Britain by the Commonwealth, may be allowed to wither unlamented if this feature is maintained. Then we may see the Commonwealth glad to turn more and more to continental Europe as a customer and supplier. Britain, playing a less important role in the Commonwealth economy, and further contracting the proportion of its trade conducted with the Commonwealth (though not its absolute value), will turn likewise to the European nations and merge its strength with theirs.

COMMON MARKET

(*Continued from p. 22*)

tion of temperate agricultural products over a large part of the globe. The United States is the world's largest exporter of temperate products and has a stake in the problem. Can wider, virtually global, arrangements be made to share markets and to control production and base prices to ensure that less powerful producers will survive?

Certainly a key problem in this decade, which becomes more pressing as the Common Market and the United States face up to their joint responsibilities of partnership, is that of aid to the developing nations of the world. Common policies and joint programs going far beyond the scope of operations of the World Bank and of the United Nations need be taken up. So far, the possibilities inherent in extending the aid resources of developed nations on a coordinated basis have scarcely been tapped.

The prospect for the future is at once difficult and complex and yet reassuring. It is difficult because none of the problems facing the Western world is going to disappear; complex because the new developments in Europe have added to the long list of problems and uncovered some old ones. However, reassur-

ance exists in the willingness of the developed nations of the free world to consider each other's problems and to seek mutual solutions. Jean Monnet's comment in 1950 à propos the Schuman Plan can be adapted to the 1960's: Atlantic partnership will not of itself solve the problems of the Western community but it may provide the framework for their solution.

GATT

(*Continued from p. 28*)

a 50 per cent cut in tariffs on other goods. Third, authority to bargain with other nations on a major category basis rather than product-by-product. Fourth, federal aid to firms injured by the trade program so that their resources may be reallocated to more efficient use.

If Congress fails to pass the new bill, the Western world could disintegrate into regional trading blocs. This would lower the total volume of trade, misallocate resources, and sap the strength of the free economies. If Congress passes the bill, a new era in free multilateral trade will arise in the largest market in man's history.

AFRICA

(*Continued from p. 34*)

There has also been a marked, although still relatively limited, trade activity on the part of other members of the Communist bloc in Africa. In the past year, for example, Guinea, Ghana, and Mali have concluded trade agreements with Communist China and many of the East European satellites.

There has been an even more dramatic expansion of bloc economic and technical assistance programs in Africa. The United Arab Republic and Guinea have received the bulk of their aid the past two or three years from the Soviet Union and other bloc nations. Ghana and Mali are also getting aid from the Soviet Union, the Eastern European satellites, and Communist China—and bloc technicians are much in evidence in these countries. Ethiopia, Morocco, and Tunisia have also negotiated aid agreements with the bloc, although only limited quantities of aid have moved to date.

The bloc tends to wrap-up aid with trade and barter. In addition, the Soviet Union and Czechoslovakia have taken to including military equipment and arms in their aid and trade deals where they can—as in the case of the United Arab Republic, Guinea, Ghana and Morocco—and this makes the aid package an even more difficult one for the new states to handle.

There is the very real possibility that Communist aid and trade may be accepted by some African areas seeking needed assistance to the point that dependence on the Communist bloc as an outlet for exports, as a supplier of aid, as the source of technicians, and as the designer of the technological base of an economy could become commitments beyond the capacity of nascent African states to modify or terminate. And this danger would be all the more when arms are included in the bloc's aid-and-trade package.

In short, the free world has a positive interest in the growth of free and open societies in Africa. What is needed, particularly in light of the Communist-bloc interest, is an adequate and timely free-world program of assistance for African development and of expansion of mutually beneficial trade and investment to make possible the growth of politically independent and stable states with a potential for evolving viable economies. It is only thus that all of the normal relations of friendship, trade, and commerce can be freely and fruitfully developed between Africa and the rest of the free world.[7]

[7] For a more comprehensive consideration of principal points dealt with in this article, particularly with reference to their implications for free-world policy, see the author's recent book *Africa and the West: Elements of Free-World Policy,* (New York: Praeger, 1962), on which I have drawn freely in preparing this paper.

FAR EAST

(*Continued from p. 49*)

Because of Chinese practice in economic warfare, price competition and other forms of rivalry that Communist China may offer to Japan in third markets constitute an imponderable that cannot be properly evaluated at this time. One ameliorating consideration, however, is that during the second half of

the 1950's, the countries with which Communist China succeeded in expanding her trade relations—Cambodia, Indonesia, and Burma (in imports only)—were all countries to which China had extended aid. To the extent that aid from China is a necessary condition for the expansion of trade, it may become an effective constraint to the scale of expansion. A determining factor would again be the future rate of growth of the Chinese economy which is a matter of considerable speculation at present.

In the light of the preceding discussion, the following tentative conclusions may be drawn in connection with the future development of intra-regional economic cooperation among the Asian countries outside of the Communist bloc. First, regional economic integration will develop only relatively slowly, and will probably be limited and selective in membership. Second, in the ultimate analysis, the basic obstacles to trade liberalization are identical with those political and economic conditions that have retarded internal economic growth in some of the Asian countries. Finally, in the case of some countries, a "break-through" may be found in this difficult situation if the pressure of events should compel the adoption of a more energetic approach to the problems posed by the need to meet rising demands for more goods.

One way out of the impasse might be the institution of an "Alliance for Progress" program for Asia either by the United States or by a group of the capital exporting countries, conditioned on a more rational use of the region's resources. In practice, however, this is not a likely or necessarily desirable solution. It runs against the traditional objection to receiving aid with strings attached and to the practice of bilateral negotiations. It will not necessarily be favorably received by the United States Congress.

An alternative possibility would be the generation of greater economic pressure on some of the Asian countries. Stronger competition may be offered by other exporters of primary products, including both African and other exporters that may be associated with members of the European Economic Community. Entry of Great Britain into the Common Market may result in a sharpening of this issue. The United States, in the course of modifying her own trade policy in response to European developments, may take steps that would have indirect effects on Asia.

Some questions cannot, of course, be answered yet. For instance, would any concessions received or given by the United States vis-à-vis Western Europe be extended to the Asian countries, including Japan? How would the relative competitive positions of the different countries be affected by United States-European negotiations? Would any changes in the balance of payments of this country significantly alter the United States attitude toward foreign aid? These are among the unresolved issues and uncertainties. It is perhaps not an exaggeration to think of them as the most important determinants of future trade developments in East, South and Southeast Asia.

DOCUMENT

(*Continued from p. 51*)

(b) *Assistance to Workers.* This includes: (1) readjustment allowances in the form of compensation for partial or complete unemployment, (2) retraining of workers for other types of employment, and (3) relocation allowances to assist families in moving to an area where employment may be available.

(c) *Assistance to Industries.* In extraordinary cases where the foregoing types of assistance may be inadequate to mitigate the difficulties involved, the President is authorized to apply increased duties or other import restrictions. Under this authority, the President may increase the duty for any article to a rate not more than 50 per cent above that existing on July 1, 1934, or may impose a duty not to exceed 50 per cent ad valorem on a free-list item. Such extraordinary relief will expire at the end of four years unless the President determines that the national interest requires its extension for a longer period. This form of relief may be provided in addition to or as a substitute for other forms of adjustment assistance.

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THE MONTH IN REVIEW

A CURRENT HISTORY Chronology covering the most important events of May, 1962, to provide a day-by-day summary of world affairs.

INTERNATIONAL

Berlin

May 3—*Pravda* (Soviet Communist official newspaper) publishes an article criticizing the U.S. for an inflexible stand on the Berlin crisis. The article particularly condemns the U.S. for refusing to negotiate any withdrawal of Allied troops from West Berlin.

May 8—General Lucius D. Clay, the U.S. special envoy to West Berlin, leaves for the U.S. where he will resume private duties.

May 14—U.S. Ambassador to West Germany Walter C. Dowling meets with Adenauer to heal a U.S.-West German rift, caused by U.S. criticism of Bonn.

May 17—The Soviet and U.S. commandants in Berlin confer on restoring normal relations and privileges for their missions. The Soviet commandant refuses to allow the U.S. mission free access to East Berlin.

May 20—In a Soviet-Bulgarian joint communiqué, the U.S. is warned against allowing West Germany to block German and Berlin accords.

May 22—The West German Foreign Ministry delivers a memorandum to the U.S. outlining West German views of the American proposals for a Berlin settlement. It is reported that Bonn has prepared a counterproposal to the U.S. plan for a 13-man international council to control access routes to West Berlin. The West German proposal leaves responsibility for keeping West Berlin access routes open with the Big Four and provides for an "operating" body of neutrals under which East Germans would have some "technical" responsibilities concerning access.

May 30—U.S. Secretary of State Dean Rusk and Soviet Ambassador Anatoly F. Dobrynin confer in Washington on the Berlin problem. This is their first meeting in 5 weeks.

Disarmament

May 7—Soviet delegate Valerian A. Zorin says the U.S.S.R. must reserve the right to veto international inspection of its territory under a nuclear test ban treaty.

May 8—Arthur Dean, U.S. delegate, reiterates the U.S. pledge to defend its allies "until general and complete disarmament is achieved in a peaceful world"; the Russian proposal for a cutback in armed forces to 1.7 million for both the U.S. and the U.S.S.R. is therefore impossible.

May 9—The U.S.S.R. says that France must be a signatory to a nuclear test ban treaty.

May 14—The U.S. asks for quick action banning arms in outer space.

May 25—The U.S. and the U.S.S.R. issue a joint communiqué approving a declaration condemning war propaganda.

May 29—The U.S.S.R. proposes amendments to the declaration condemning war propaganda, in effect nullifying it.

May 31—The 17-nation disarmament conference adopts a factual interim report after 11 weeks of talks; no progress has been made on substantive issues.

European Economic Community (Common Market)

May 2—Norway formally asks for admission to the European Economic Community.

May 9—It is reported from Berlin that in private talks West German Chancellor Adenauer opposes Britain's full membership in the Common Market.

May 10—Government sources in London declare Britain desires full membership in the Common Market.

May 15—The Common Market's Council of Ministers votes unanimously to accelerate tariff reduction and the application of a new common tariff against the rest of the world.

May 17—The President of the British Board of Trade reports an arrangement for a two-way reduction in tariffs within the framework of Gatt, on behalf of Britain and the Common Market.

May 29—Britain and the E.E.C. reach agreement on tariffs on British imports of manufactured goods from Canada, Australia and New Zealand.

May 30—Prime Minister Robert Gordon Menzies says Britain's agreement of May 29 with the E.E.C. on Commonwealth imports has "a tentative quality."

Britain reveals acceptance of non-trade economic rules of the E.E.C.

North Atlantic Treaty Organization (Nato)

May 5—Five fully equipped nuclear-powered Polaris submarines are given by the U.S. to Nato.

May 6—After a 3-day meeting of Nato's Ministerial Council, it is reported that France is to share fully in consultations on American nuclear forces in Europe.

May 19—Another West German division joins Nato's northern command area; this brings the total number of German divisions with Nato to nine.

May 28—Secretary of State Dean Rusk and French Ambassador Hervé Alphand meet privately to discuss U.S.-French differences. (See also *France.*)

United Nations

May 2—The commission investigating the plane crash in Northern Rhodesia that killed Dag Hammarskjold in September, 1961, reports it has not been able to discover the cause of the crash.

May 4—A letter to delegates calls the General Assembly into session June 7 to take up the question of Ruanda-Urundi's future.

May 11—The committee on colonialism approves two resolutions and a report criticizing the treatment of Africans in Southern Rhodesia. Britain opposes the committee action.

May 23—Acting Secretary General U Thant asks the Netherlands and Indonesia to resume negotiations on Netherlands New Guinea.

May 26—Two U.N. officials who have investigated conditions in the South African administered territory of South-West Africa report no evidence that there is a threat to international peace and security; they found no evidence that the population was being exterminated.

ARGENTINA

May 20—The Argentine Cabinet issues a decree to recess Congress and rule by decree in the interim. The March 18 elections are invalidated. Argentina has been trying to solve a political crisis since the congressional elections of March 18, when Peronist candidates won half the seats contested in the Chamber of Deputies (lower house). The Cabinet's plan calls for the restoration of constitutional government by May 1, 1964. The Cabinet also announces the dissolution of all political parties; they will be re-formed under a new law outlawing the Peronists.

May 22—Three Peronist deputies fight with Argentine police to force their way into the Congress building. The government has prevented the newly-elected Peronists from taking their seats.

BRAZIL

May 3—In Rio de Janeiro, the Soviet Union opens an exhibition of industry, science and culture, the largest Soviet show to be given in Latin America.

May 13—U.S. Food for Peace Director in Brazil Leonard Wolff announces that emergency shipments of beans and corn have been ordered to the northeast area of Brazil because of famine there.

May 15—A food emergency for the 9 states

of Brazil's northeast is declared. Some 20 million persons are affected by the food shortage.

May 23—The Council of Ministers approves a decree authorizing the government to nationalize public utilities in Brazil.

BRITISH COMMONWEALTH OF NATIONS

Australia

(See *International, E.E.C.*)

Ghana

May 5—President Kwame Nkrumah declares a "general amnesty" for refugee Ghanaians; orders the release of many now detained without trial under the Preventive Detention Act; rescinds his decision extending the detention of prisoners under the Detention Act from 5 to 25 years.

Great Britain

(See *United Kingdom.*)

India

May 2—An Indian note to Peking is made public charging Communist China with stirring up conflict in Asia.

May 4—In the U.N. Security Council, the Soviet delegate supports India's case in the dispute with Pakistan over Kashmir.

May 7—Zakir Hussain is elected Vice-President by the Parliament.

May 9—It is reported that the United States has protested to India about its reported plan of buying MIG jet fighters from the U.S.S.R.

May 11—Sarvepalli Radhakrishnan is elected to succeed Rajendra Prasad as President.

May 31—Defense Minister V. K. Krishna Menon says India is considering buying MIG's from the U.S.S.R.

Nigeria

May 21—The Governor of Western Nigeria informs the Premier of Western Nigeria, Samuel L. Akintola, that he has been dismissed from office. Akintola appeals to the Federal Prime Minister.

Dawuda S. Adegbenro is sworn in as Premier of Western Nigeria.

May 25—Rival factions fight in the West Nigerian Parliament and are dispelled with tear gas.

May 29—Western Nigeria is declared in a state of public emergency; a federal administrator is appointed.

Pakistan

May 3—Reports from Muslim refugees indicate that recent rioting in West Bengal resulted in a religious massacre.

May 10—President Mohammad Ayub Khan says that U.S. aid for India may influence India's neighbors to "look for protection elsewhere."

United Kingdom

Great Britain

(See also *International, E.E.C.*)

May 11—In local elections in England and Wales, the Conservatives lose to Labor and Liberal candidates.

May 16—The Liberal party candidates win in a by-election in Montgomeryshire, Wales.

May 29—The stock market suffers the sharpest 1-day drop since 1935.

Northern Ireland

May 31—The Unionist party maintains its 41-year dominance in the 52-seat Parliament.

BRITISH EMPIRE

Tanganyika

May 31—A Government White Paper reveals plans to establish Tanganyika as a republic within the British Commonwealth.

West Indies

May 4—Governor General Lord Hailes of the West Indies Federation announces that the Government plans formal dissolution of the West Indies Federation May 31.

May 24—Eight small colonies in the Windward and Leeward Islands and Barbados plan a new West Indies Federation, without Jamaica and Trinidad. Jamaica will become independent in August.

May 28—In London, a conference opens on Trinidad-Tobago independence.

BULGARIA

(See also *U.S.S.R.*)

May 14—Soviet Premier Nikita Khrushchev arrives in Sofia for talks.

CHINA, NATIONALIST

May 8—Church World Service, the overseas relief branch of the National Council of Churches in the U.S., announces that its food program to families on Taiwan will be halted because of black market and other corrupt practices involving surplus food. However it will continue to distribute surplus goods to 400 charitable institutions in Taiwan.

May 9—The U.S. Agency for International Development declares that it will continue to send Food for Peace to the Taiwanese needy, despite the withdrawal of the Church World Service from the program.

CHINA, PEOPLE'S REPUBLIC OF (Communist)

May 8—It is reported that in the last few days thousands of refugees from Communist China have been seized on Hong Kong (British crown colony) and returned to their government.

May 19—Governor Sir Robert Black signs an order enlarging the border security area where refugees in flight from Communist China seek to hide. Hong Kong is acting to stem the flow of refugees.

May 21—Nationalist China announces that it will take any refugees from Hong Kong who wish to come to Taiwan.

May 23—U.S. President Kennedy announces the U.S. decision to admit some Chinese Communist refugees from Hong Kong under emergency powers.

May 25—The Hong Kong government announces that the surge of refugees which reached 70,000 in a 4-week period has apparently ended.

May 26—It is reported that British border guards in Hong Kong have rounded up and returned some 55,000 refugees to Communist China.

COLOMBIA

May 6—Elections for the presidency are held.

May 7—It is announced that Guillermo Leon Valencia, endorsed by the National Union Coalition of Conservative and Liberal parties, has won the presidency with 1.5 million votes; his nearest rival polled 550,000 votes.

CONGO, REPUBLIC OF THE (Leopoldville)

May 7—The Congolese Chamber of Deputies votes to deprive ex-Deputy Premier Antoine Gizenga of his parliamentary immunity so that he may be brought to trial. Gizenga has been imprisoned since last January for leading a left-wing secessionist movement in Stanleyville.

May 17—Secessionist President Moise Tshombe of Katanga announces that he is ready to give up his province's sovereignty to the central government under Premier Cyrille Adoula.

May 18—Tshombe arrives in Leopoldville for talks with the central government on ending Katanga's secession.

May 22—Tshombe and Adoula hold their first conference on bringing Katanga under the authority of the national government.

CUBA

May 11—It is reported that Cuban Premier Fidel Castro, in a speech yesterday, declared that improperly nationalized medium-sized farms may be returned to peasant farmers. Castro also stated that he is not afraid to take a backward step in his plan for a socialist state. Cuba is trying to combat serious food shortages.

EGYPT

(See *United Arab Republic.*)

FRANCE

May 7—It is announced that a French underground nuclear test was exploded in the Sahara last week.

May 10—The Ministry of the Armed Forces announces that French Army strength will be reduced from 700,000 to 500,000 next year.

May 16—Five French Cabinet ministers (all

Popular Republicans) resign because of President Charles de Gaulle's speech yesterday opposing a supranational organization for West Europe and urging a system of cooperation among sovereign states.

FRANCE OVERSEAS

Algeria

May 2—French Secret Army Organization (O.A.S.) terrorists explode a booby-trapped car at the hiring hall for Muslim longshoremen in Algiers. Some 62 persons are killed and 110 wounded. Young Algerian vigilantes rush to the scene to supervise the evacuation of the victims. It is reported that throughout Algeria 110 persons have been killed and 147 wounded; in Oran 6 Muslims are massacred under the eyes of French soldiers and police.

May 3—The 5-man Council of Greater Algiers, which rules 500,000 Muslims, issues a declaration criticizing the French army for not preventing terrorism. The French High Commissioner, Christian Fouchet, announces new and more stringent security measures.

Algerian Minister of Information M'hammed Yazid, after a 4-hour meeting of the provisional government in Tunis, warns against continued French terrorism. The provisional government's press service repeats orders to the Algerian Muslims not to retaliate against O.A.S. terrorism.

May 4—French Cabinet Minister Alain Peyrefitte announces that the Algerian peace agreement will take effect on schedule.

May 6—O.A.S. terrorists open a campaign against Muslim women: 3 are killed and 2 wounded.

May 8—Officials in Algiers declare that the French are training some 2,000 Muslims, all former members of the National Liberation Army, as an auxiliary police force to help suppress O.A.S. terrorists.

May 11—In Oran police seize some 500 persons to block terrorism. The Roman Catholic Bishop of Oran is included in the arrest because of his views on keeping Algeria French.

The French government warns that persons who condone O.A.S. terrorism will be punished with the terrorists.

May 12—The Algerian transitional executive governing body announces that 30,000 Muslim soldiers who served in the French army will help fight the O.A.S.

May 14—Muslim gunmen kill 17 Europeans and wound 35 in 2 hours of violence.

May 15—O.A.S. terrorists kill 54 persons, including 51 Muslims.

In Paris, the trial of former General Raoul Salan, head of the O.A.S. movement, begins. Salan is on trial for his life for leading terrorist opposition to the Algerian peace.

May 20—An airlift to evacuate Europeans from Algiers is initiated by French authorities. Some 1,400 Europeans waiting at the airport for days for passage are flown to France.

May 23—A High Military Tribunal sentences Salan to life imprisonment.

May 25—Former General Edmond Jouhaud, Salan's second in command, is given a stay of execution. On April 13, the high military tribunal sentenced Jouhaud to death.

May 26—French official sources report that Jouhaud will be spared if O.A.S. terrorism in Algeria ends.

Carrying out a "scorched earth policy," the O.A.S. bombs and burns 18 elementary schools.

INDONESIA

May 4—The Dutch military commander in New Guinea, Rear Admiral Leendert Reeser, announces that 25 Indonesian paratroopers landed on the coast of West New Guinea (West Irian) a few days ago. They are being sought out by Dutch troops.

May 20—The Dutch government announces that Dutch soldiers have battled with Indonesian paratroopers dropped into West New Guinea yesterday.

May 26—The Netherlands announces that it will accept the U.S. plan for settling the New Guinea dispute. The plan, officially made public today, calls for a U.S. mediator in further discussions between Indo-

nesia and the Dutch on the question of sovereignty over New Guinea and provides for U.N. administration of New Guinea and a plebiscite so that the Papuans can decide their own future status.

May 29—Acting Secretary General of the U.N. U Thant issues appeals to the Netherlands and Indonesia for an immediate ceasefire in New Guinea, and for discussions of a settlement.

ISRAEL

May 29—The Supreme Court rejects the appeal by Adolf Eichmann to be spared the death penalty.

May 30—Israeli President Itzhak Ben-Zvi is asked for clemency in the Eichmann case.

May 31—Adolf Eichmann is hanged in Israel after Ben-Zvi rejects his appeal.

ITALY

May 7—A former Premier and Christian Democrat, Antonio Segni, is elected President by both houses of parliament and 10 regional representatives. His election comes after 5 days of voting, on the ninth ballot. He succeeds Giovanni Gronchi.

May 12—Segni asks Premier Amintore Fanfani and his cabinet to continue in office.

IVORY COAST

May 9—President Felix Houphouet-Boigny arrives in the U.S. for a visit.

May 24—In a communiqué after 2 days of talks with Houphouet-Boigny, U.S. President Kennedy pledges U.S. aid to the Ivory Coast.

LAOS

May 5—U.S. military sources report that Pathet Lao (pro-Communist) troops were aided by Communist Chinese in seizing Muong Sing 2 days ago.

May 6—It is reported that Pathet Lao forces have taken Nam Tha in north Laos.

May 7—The U.S. says that it will request the International Control Commission (India, Poland and Canada) for Laos to investigate the Nam Tha invasion by Pathet Lao forces as a violation of the ceasefire of May, 1961.

The U.S. expresses doubt that Chinese Communist troops have been involved in recent fighting in Laos.

May 8—Britain and the U.S. ask the Soviet Union to halt the pro-Communist troops' attacks in Laos. (See also *U.S.S.R., May 18.*)

May 9—U.S. President Kennedy condemns Pathet Lao aggression. He also criticizes rightist Premier Boun Oum for not cooperating in setting up a neutralist government under Prince Souvanna Phouma.

May 11—It is reported in Washington that the U.S. will offer a show of force in Southeast Asia following the failure of the Royal Lao army to destroy pro-Communist troops.

Pathet Lao troops seize northwest Laos and travel 100 miles over the ceasefire line.

May 12—U.S. President Kennedy orders U.S. naval ships and 1,800 marines to the Gulf of Siam, off the Indochinese peninsula.

Commander in Chief of the Royal Lao army Major General Bounieut Sanichan and 2,000 soldiers flee into Thailand from northwest Laos, where pro-Communist forces take complete control.

May 15—President Kennedy orders another 2,000 American soldiers to Thailand. About 1,000 U.S. soldiers already are stationed there.

It is reported that Prince Boun Oum in Taiwan has agreed to a coalition government headed by neutralist Souvanna Phouma on Phouma's terms, i.e., that he be allowed to name the ministers to fill the key cabinet posts of interior and defense.

May 16—Pro-Communist leader Prince Souphanouvong agrees to meet with Boun Oum and Souvanna Phouma to establish a coalition government in Laos.

May 26—Phouma meets with members of the International Control Commission and sets June 15 as the deadline for negotiations on a new government. He hopes to hold his first meeting next week with Boun Oum and Souphanouvong.

May 27—Pathet Lao forces renew their attacks in northwest Laos.

NETHERLANDS, THE

(See *Indonesia.*)

THE PHILIPPINES

May 14—President Diosdado Macapagal announces that he is postponing indefinitely his scheduled visit to the U.S. next month because last week the U.S. House of Representatives failed to pass a $73 million war claims bill for the Philippines.

May 20—Macapagal declares that restoration of good relations with the U.S. may be possible if the amended war damages bill now before the U.S. Congress passes.

PORTUGAL

May 1—Police clash with persons participating in prohibited May Day demonstrations in Lisbon and in Oporto; the rioters are protesting against the government of Premier Antonio de Oliveira Salazar.

SOUTH AFRICA

(See also *International, U.N.*)

May 5—Two members of the U.N. Committee on South-West Africa arrive in South Africa. They are the first committee members to be admitted in the 16-year old dispute.

May 9—Two U.N. members arrive in South-West Africa.

May 23—In The House of Assembly, the 3 opposition parties criticize the General Law Amendment bill which would allow Prime Minister Hendrik F. Verwoerd's government wide police powers. This "sabotage" bill defines sabotage broadly and subjects saboteurs to severe penalties, including the death sentence.

May 28—The Assembly approves the sabotage bill 79–50; it now goes into committee before final passage is voted.

SPAIN

May 10—It is reported that the 3-week old coal miners' strike in north Spain continues.

May 14—Greek Princess Sophia marries Spanish Prince Juan Carlos, son of Don Juan (pretender to the throne of Spain).

May 28—It is reported that striking miners and factory workers are returning to their jobs.

SYRIA

May 11—It is announced by Egypt that ex-security chief and former Vice President of the U.A.R. Colonel Abdel Hamid Serraj has arrived in Cairo. He escaped from a Damascus military hospital about one week ago.

May 22—All foreign banks in Syria are nationalized by the government.

THAILAND

(See also *Laos.*)

May 16—The first contingents of the 4,000 additional U.S. troops ordered to Thailand debark.

May 17—General Paul D. Harkins, head of U.S. forces in Southeast Asia, declares that U.S. troops in Thailand are under strict orders not to violate Laotian territory. The troops are to be stationed in northeast Thailand.

TURKEY

May 31—President Cemal Gursel accepts Premier Ismet Inonu's resignation, which results from opposition to the terms of the amnesty bill for former members of the government of executed Premier Adnan Menderes.

U.S.S.R., THE

(See also *Int'l., Berlin Crisis.*)

May 1—At the May Day Parade in Red Square, Soviet Defense Minister Rodion Y. Malinovsky warns against a possible "preventive atomic war" by the U.S. against the Communist bloc.

May 16—Soviet Premier Nikita Khrushchev affirms Soviet-Yugoslav friendship, despite "ideological differences." Khrushchev is visiting Bulgaria.

May 17—U.S. White House Press Secretary Pierre Salinger leaves the Soviet Union after a week's visit.

May 18—Khrushchev declares that the sending of U.S. troops to Thailand may provoke another "Korea."

May 20—Khrushchev returns to Moscow from Bulgaria.

May 30—Khrushchev, in a speech at the Great Kremlin Palace to welcome a Mali

delegation, denounces the Common Market. He urges "an international conference on trade problems," to establish a world trade organization composed of all regions and countries of the world. (See also *United States, Foreign Policy.*)

UNITED ARAB REPUBLIC

May 21—At the opening of the 1,750 member National Congress of Popular Forces, President Gamal Abdel Nasser reads his "National Charter of Socialist Principles," providing for future parliamentary elections. The Charter outlines ideal "Arab socialism" and the "model Arab state."

UNITED STATES

Agriculture

May 17—President Kennedy tells a news conference that it will cost the taxpayers $4 billion if his farm bill is not passed.

Civil Rights

May 15—The Senate votes 49 to 34 to set aside the literacy bill after two motions to cut off Senate filibuster fail to pass.

The Economy

May 3—Wage increases are recommended for 500,000 non-operating railroad employees.

May 9—Labor Department figures reveal that the national unemployment rate adjusted against seasonal influences was unchanged in April.

May 11—Douglas Dillon, Secretary of the Treasury, notes that some $900 million in revenue could be recovered by the Government if taxes on dividend and interest income were withheld at the source.

The Treasury pledges more liberal rulings on industrial equipment depreciation in June or July.

May 15—Industrial production, nonfarm payrolls, personal income and the number of hours worked in factories all showed April gains, the Federal Reserve Board reports.

May 17—Kennedy tells a national conference on U.S. trade policy that his trade bill is vital to the Atlantic community.

May 28—The stock market suffers its sharpest one-day drop since 1929; shares dropped $20.8 billion in value.

May 29—The stock market recovers 60 per cent of yesterday's loss.

May 30—Stock sales make up the May 28 losses.

May 31—The Department of Labor reveals record employment for May of 68,203,000.

Foreign Policy

May 4—The President asks Congress to pass the Trade Expansion Act unamended; the United States, he says, must "trade or fade."

May 9—Norwegian Premier Einar Gerhardsen confers with President Kennedy in Washington.

May 12—Kennedy orders U.S. naval, air and land forces to move toward Southeast Asia after a major Communist military victory in Laos. (See also *Laos* and *Thailand.*)

May 17—The President again pledges United States defense of Europe but warns that the Nato allies must cooperate.

May 31—Secretary of State Dean Rusk says Khrushchev's proposal for a world trade conference is only a "diversion." (See also *U.S.S.R.*)

Government

(See also *Civil Rights.*)

May 7—Secretary of Agriculture Orville L. Freeman says he has "no evidence" of special favors from his department to Billie Sol Estes, the Texas grain and cotton and fertilizer dealer.

May 9—The Agriculture Department fines Billie Sol Estes $554,000 for acreage allotment violations.

May 15—The Texas Attorney General files an antitrust action against Billie Sol Estes.

May 21—Kennedy asks support for the King-Anderson Bill providing medical care for the elderly.

Labor

May 4—The executive board of the United Automobile Workers decides to recommend a $1.5 million contribution to promoting labor organization abroad.

May 18—A federal grand jury indicts James

Hoffa, President of the International Brotherhood of Teamsters, for accepting illegal payments from a Detroit trucking firm.

May 27—The International Ladies Garment Workers Union reports assets worth $76,-674,952.

Military Policy

May 2—The first megaton-range nuclear bomb in the current Christmas Island test series is set off by the U.S.

The White House announces that Secretary of the Army Elvis J. Stahr, Jr., has resigned, effective June 30, to assume the presidency of Indiana University.

May 3—The President orders a reduction in orders for nuclear warheads.

May 11—The Department of Defense publishes some detailed information about the nationwide shelter program proposed by the Administration.

May 24—M. Scott Carpenter lands safely after a three-orbit flight around the earth; he is the second American astronaut to circle the earth.

Politics

May 12—Ralph J. Bunche says he will not leave his U.N. post to become a candidate for the Democratic nomination for Senator.

May 16—Connecticut's Republican Senator Prescott Bush withdraws as a candidate for re-election for reasons of health.

May 19—Kennedy speaks at a Madison Square Garden Democratic fund-raising rally.

Segregation

May 8—The Department of Justice asks the courts to forbid racial segregation in hospitals that accept federal aid for construction.

May 10—The *Southern School News* reveals that almost 250,000 Negroes attend schools with whites in 17 Southern and border states and the District of Columbia. Alabama, Mississippi and South Carolina hold out against even token integration.

May 14—A "demonstration school" is announced for Englewood, New Jersey, where white and Negro pupils can attend voluntarily, crossing district lines to end the racial imbalance in Lincoln School.

May 16—The Department of Justice challenges the use of segregated voting machines in a suit against officials of Bibb County, Georgia.

Supreme Court

May 21—The Court rules 5 to 2 that six men convicted of contempt for refusing to answer questions of congressional committees relating to communism have been wrongly convicted; the indictments were faulty because they did not specify the "subject under inquiry."

VENEZUELA

May 4—Some 440 marines and 50 national guardsmen seize the city of Carúpano in a revolt against the government. The rebels demand the resignation of President Romulo Betancourt.

May 5—It is reported that loyal government troops have regained control of Carúpano.

VIETNAM, SOUTH

May 24—South Vietnamese troops continue a 2-day fight with Communist guerrillas.

May 25—The International Control Commission on Indochina (composed of India, Canada and Poland), according to reliable sources, charges that North Vietnam is guilty of provocations and subversion in South Vietnam. The I.C.C. report is submitted to the U.S.S.R. and Britain (co-chairmen of the 1954 Geneva conference on Indochina).

YUGOSLAVIA

May 14—Milovan Djilas, ex-Vice President and author, is sentenced to 5 years imprisonment after a 6-hour trial for his book, "Conversations with Stalin." He also has to serve some 3 and one half years of a previous sentence from which he was paroled in January, 1961.

May 28—The Yugoslav Foreign Ministry announces that Tito has been invited to visit the Soviet Union this summer.

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